

**How can a Portuguese not-for-profit organization make a  
successful transition to the Social Enterprise model, becoming less  
dependent on donations and grants in order to fulfill its Social  
Mission: the case of RECLUSA**



Ana Carolina Batista, 3326

A Project carried out within the Master in Management Program, under the  
supervision of: Catherine Da Silveira

23.01.2018

## Abstract

Not-for-profit organizations have become increasingly aware of the need to become self-sufficient in order to guarantee the success of their social mission. The transition to a Social Enterprise approach – self-sustainable not-for-profit organizations providing goods or services directly related to their explicit goal of benefitting the community - can represent a great opportunity for them to achieve a more sustainable future and increase their social impact. This transition was undertaken by the Portuguese brand RECLUSA. As part of the *Associação Projeto Reclusa*, RECLUSA is a social enterprise that aims to support inmates and former inmates, during prison time and subsequent reintegration process in society, through the production and commercialization of bags and accessories. Having shown a great dependence on external financial aid since its creation in 2010, finding a new business strategy that could provide financial sustainability was a crucial factor for its survival. Unfortunately, the business model shift made in the beginning of 2016 has proved insufficient to achieve that goal. In order to understand which factors might be preventing the success of the organization, we undertook a Profit and Loss Account Analysis for the last collection sold, and recommendations were made considering the results obtained.

Keywords: *RECLUSA, Social Enterprise, Rebranding, Not-for-profit Organizations Sustainability*

**Acknowledgments:** A special thank you to NOVA SBE Professor Catherine Da Silveira for accepting to be my Thesis Advisor and for all the availability shown during this Work Project, to Professor Maria João Major for all the help provided in the Financial part of the Project, and to Madalena Moura and Carlos Mota, from RECLUSA, for their patience and availability to provide information.

# Table of Contents

|   |    |
|---|----|
| 1. INTRODUCTION .....   | 1  |
| 1.1. Context.....   | 1  |
| 1.2. Work Project Objectives.....   | 1  |
| 2. CONTEXTUAL BACKGROUND .....  | 2  |
| 2.1. RECLUSA .....  | 2  |
| 2.1.1. Overview and Historical Background.....                                      | 2  |
| 2.1.2. Spring Summer Collection 2017.....   | 3  |
| 2.2. Literature Review.....   | 4  |
| 2.2.1. Social Enterprises in the European Context.....                              | 4  |
| 2.2.2. The transition from a Charity Organization to a Social Enterprise .....      | 5  |
| 2.2.3. Financial Sustainability and Strategy for Not-for-profit Organizations ..... | 6  |
| 2.2.4. Not-for-profit Branding .....  | 7  |
| 3. ADDRESSING THE WORK PROJECT TOPIC.....   | 9  |
| 3.1. Financial Profitability Analysis of the Summer Spring Collection 2017 .....    | 9  |
| 3.1.1. Methodology .....  | 9  |
| 3.1.2. Main Insights from the analysis.....   | 10 |
| 3.2. Main Issues .....  | 16 |
| 4. RECOMMENDATIONS.....   | 17 |
| 5. LIMITATIONS.....   | 25 |
| 6. REFERENCES .....   | 26 |

## **1. INTRODUCTION**

### **1.1. Context**

RECLUSA is a Portuguese Social Enterprise that aims to help female inmates<sup>1</sup> during prison time and subsequent reintegration process in society, through the production and commercialization of bags and accessories with a high level of quality and design. Named REKLUSA until the end of 2015, the brand went through a rebranding process in 2016 when it became clear that the business model used was not sustainable. This transition consisted in moving from a “charity” orientation for non-profit organizations to a social enterprise business model. Major organizational and branding changes were made to make this transition possible. Nevertheless, one year later, and after two new collections sold, RECLUSA is still facing financial difficulties and is still dependent on donations and grants.

### **1.2. Work Project Objectives**

As a Social Enterprise one of the main objectives for RECLUSA is to become self-sustainable, not having to depend on donations or grants to survive, as external aids are unpredictable. Unfortunately, the business model shift has been proven insufficient to achieve that goal. The two collections launched after the transition didn't bring the needed (and expected) profitability and RECLUSA is still facing difficulties to fulfill its social mission without resorting to other sources of income.

Having this context in mind, this Work Project has three main objectives. The first one is to conduct a profitability analysis of the new business model of RECLUSA, based on the analysis of the Spring Summer Collection of 2017<sup>2</sup>. The second objective consists in identifying through

---

<sup>1</sup> RECLUSA helps both female and male inmates during their reintegration process, but the main focus are women.

<sup>2</sup> The Spring Summer Collection 2017 was the second collection launched after the business model change, but it's the first collection with all the data available to make a correct profitability analysis.

this analysis the aspects that didn't allowed RECLUSA to gain the expected profitability and independence from external financial help. The third objective is to suggest actions that can allow RECLUSA to finally generate enough revenue and be able to help more people related to its social mission.

## **2. CONTEXTUAL BACKGROUND**

### **2.1. RECLUSA**

#### **2.1.1. Overview and Historical Background**

RECLUSA is part of the *Associação Projeto Reklusa*, founded in 2010, which is a Portuguese Private Institution of Social Solidarity (IPSS) that aims to support the reintegration of inmates and former female prisoners in society, through training and professional opportunities.

Since its creation, RECLUSA, formerly named REKLUSA, has shown a great dependence on donations and other external financial help to finance its activities, because the sales of the bags commercialized didn't generate enough revenue to make that possible (detailed information on REKLUSA's financial dependence in *Appendix I*). In order to exist, REKLUSA has relied through the years on a vast set of stakeholders: Institutional Entities, Employees (and their families), Partners and Volunteers. Volunteers are very important for the Association and have made possible the survival of REKLUSA/RECLUSA to date.

In 2016, it became clear that the business model used until that moment was not sustainable if REKLUSA wanted to be able to fulfill its social mission without being dependent on the "goodwill" of its volunteers, associates and government (grants), which changed dramatically

from one year to the other. That is the main reason why in 2016, with the help of *LET'S HELP*<sup>3</sup> - an association that helps redefining social business strategies – REKLUSA signed a protocol aiming to restructure its business model, turning it into a social business. *LET'S HELP* invested 9.000€ in the project and was responsible for taking any operational and strategic measures in the first year after the protocol was signed.

The lack of financial stability, crucial for a business that needs a steady monetary stream to “feed” its social mission, led to the need to shift to a business-oriented organization by rebranding the former brand into a new one that appealed to the fashion market. The name was thus changed from REKLUSA to RECLUSA (a more “Portuguese” name), the logo was adapted to match this new concept and the store was remodeled accordingly. In addition to these changes, the products’ quality increased dramatically and collections started to be designed by a permanent designer (more details about the transition in *Appendix 2*).

### **2.1.2. Spring Summer Collection 2017**

The analysis unit of our investigation is the “profitability” of RECLUSA’s Spring Summer Collection of 2017. The period taken into consideration for the Collection analysis starts at the 4<sup>th</sup> of April of 2017, when the first product of the collection was sold, and ends on September 31<sup>st</sup> of the same year (five months). The Collection was created by the designer Madalena Braga and was composed by a total of 53 new different products commercialized (18 distinguished models and 16 different colors). Nine of the models were fabricated at the Tires’ Prison and the remaining models were made at the Emídio Godinho Factory. Additionally, three models from the previous Collection, Fall Winter 16, transited to this Collection (detailed collection is displayed in *Appendix 3*). The Collection was sold through nine different points of sale: the

---

<sup>3</sup> <http://www.letshelp.pt/>

*RECLUSA's Store* (in Rua das Amoreiras), the store owned by the association; *LAVANDA* (in Comporta) and *MOON* (in Chaves), the stores that sold the Collection through Resale (1)<sup>4</sup>; and the Consignment (2)<sup>5</sup> stores: *REPÚBLICA DAS FLORES* (in Baixa), *LOJA DAS MEIAS* (in Amoreiras Shopping Center), *CONCEPT STORE* (in Príncipe Real) and *ZOE* (in Cascais). RECLUSA was also present in two “Market Fairs” the *MARKET STYLISTA* (Estoril) and the *GREEN FEST* (Cascais). Discounts were made during the middle of July (in only three models) and in September (in all models).

## **2.2. Literature Review**

To approach the topics addressed in this work project, the following literature was used:

- Literature on Social Enterprises in Europe
- Literature on the Transition from a “Charity” Organization to a Social Enterprise
- Literature on Financial Sustainability and Strategy for Not-for-profit Organizations
- Literature on Not-for-profit Branding

### **2.2.1. Social Enterprises in the European Context**

Despite the significant amount of research that has taken place since the first use of the term (Peredo and McLean, 2006), there is still no unified definition of social enterprise. One commonly used definition is the one introduced by The European Research Network, EMES, which defines social enterprises as not-for-profit private organizations providing goods or services directly related to their explicit goal of benefitting the community.

---

<sup>4</sup> (1) “A Reseller is a company that buys products from manufacturers [(at a certain price)] and sells them to consumers [(at another price)].” Adapted from (www.dictionary.cambridge.org).

<sup>5</sup> (2) “Consignment is an arrangement in which goods are left in the possession of another party to sell (...) for a set period of time. [(a margin on the price of the product sold is retained by the seller)]. After this time, if a sale is not made, the goods are returned to their owner.” Adapted from (www.investopedia.com)

A specific feature of the European social enterprise approach (compared to the American one) is the setting up of an institutional structure, specially designed to pursue a social goal in a stable and continuous way, through the production of goods and services of general interest, in which the activity carried out has to be managed in an entrepreneurial way. Thus, a constant balance between the social and economic dimensions has to be maintained. Other distinctive feature is the “hybridization” of the resources, since social enterprises combine income from sales or fees from users/consumers with public subsidies linked to their social mission and private donations and/or volunteering (Dees and Anderson, 2006).

### **2.2.2. The transition from a “Charity” Organization to a Social Enterprise**

There is a growing need for Charity Organizations to become self-sufficient in order to guarantee the success of their social mission, without completely depending on the goodwill of donors or governmental support. The social enterprise model may not be the right answer for all charity organizations, but for a big part of them adopting this approach can provide them a more sustainable future and increase their social impact (Murray, 2012).

Social Enterprises have two objectives: a financial objective and a social objective, which is the reason why they are also referred as hybrid organizations. The relationship between the two remains unclear in social entrepreneurship literature. Some authors believe that both objectives coexist within the organization with a permanent tension (Smith, Besharov, Wessels and Chertok, 2012), while others defend that the main characteristic of social companies is precisely the ability to have harmoniously merged the two objectives in a single organization (Emerson, 2003).

One of the biggest challenges faced by most Charity Organizations in this transition process is then the necessity to correctly balance the need for profitability in the long term, as a mean to support their activities, with the need to prioritize and achieve their social mission. As



suggested by Dees (1998) “*new sources of revenues can pull an organization away from its original social mission.*” This tension can sometimes cause a mission drift that defeats the original charitable purpose and creates conflicts of interest, and diversion of public resources to private gains (Battiliana, Lee, Walker and Dorsey, 2012).

### **2.2.3. Financial Sustainability and Strategy for Not-for-profit Organizations**

Although profitability is not the core purpose of a not-for-profit organization (NFPO), it is necessary to ensure they have the adequate monetary flow to achieve their goals and support their operations over their life time, continuing to give support to the community. This said, Financial stability is necessary to achieve sustainability, but it’s important to keep in mind that applying for-profit strategic ideas in the NFPO world requires careful planning.

The idea behind the creation of a strategy is to catapult an organization to higher levels of performance. While the for-profits’ focus may be on ways to “outperform rivals” (Porter, 1996), NFPOs’ focus is more related to “mission accomplishment” (Sheehan, 1996). For NFPOs, the commitment to accomplish their mission is the driving force for attaining high performance (Senge, 1990) and is the key motivator in their development. The source of revenues that can generate this sustainability is equally important to discuss. NFPOs acquire funds through earned income, governmental support and private donations. A not-for-profit organization may even establish a social enterprise separately to help diversify its revenue streams in ways that fundraising or grants cannot. Thus, creating a social enterprise can help a NFPO establish a source of revenue or earned income that is returned to fund its mission (Jean Francois, 2015).

Implementing a good financial management is equally important to allow NFPOs to deliver their strategic goals in a financially sound manner. The nature of NFPOs’ mission and its revenue sources demands a high degree of accountability, which in turn demands an effective internal control system. A not-for-profit organization may often tend to reject the more

“objective” accounting management control strategies (Gerard, 1983), because organizational goals are usually altruistic, qualitative, intangible and non-monetary (Kramer, 1981). It is also essential that NFPOs are able to evaluate their financial sustainability at any point in time. For that, Tuckman and Chang (1991) pointed four operational criteria that should be kept in mind to prevent financial vulnerability in not-for-profit organizations: inadequate equity balance, revenue concentration, high administrative costs, and low or negative operating margins.

Some of the revenue enhancing strategies that can be adopted by NFPOs to prevent this financial vulnerability include: commercial generated revenues (Wijkstrom, 1997), application of business principles to fundraising (Dart, 2004), relationship marketing (Money, Money, Downing and Hillbrand, 2008), identity-based donations (focusing on the salience of the donors’ identity within the relationship) (Arnett, German and Hunt, 2003), and within and across sector strategic alliances (Berger, Cunningham and Drumwright, 2004). In the same way, NFPOs can reduce costs by increasing volunteerism (Weisbrod, 1998) and soliciting in-kind donations (Snaveley and Tracy, 2000).

#### **2.2.4. Not-for-profit Branding**

While the number of NFPOs have been increasing worldwide, government support has declined and individual donations have shown little grow (Venable, 2005). This reality has created more competition for the amount of funds available to NFPOs (Katz, 2005) and consequently resulted in an increasing interest from the not-for-profit sector in Marketing strategies, including branding (Clark and Mount, 2000).

Branding is especially important to NFPOs because there is a clear link to competitive advantage (Aaker, 1996) and the effective use of resources (O’Cass and Voola, 2011). Extensive research has already proven that branding has many benefits for NFPOs, including

attracting higher levels of donations (Bennett and Gabriel, 2003) and greater volunteerism, as well as lower risk perceptions and higher credibility (Aoki, 2003).

As Kylander and Stone (2012) suggest, *“a brand is more than a visual identity: the name, logo and graphic design used by an organization. (...) is a psychological construct held in the minds of all those aware of the branded product, person, organization or movement. Brand management is the work of managing these associations”*. So, a carefully developed Brand Identity is critical for communicating the core values of the organization and motivating internal and external stakeholders, keeping them all focused on the same brand promise (Keller, 2010).

Basu and Wang (2009) concluded in their research that consumers associate three types of benefits to not-for-profit brands: functional, symbolic and experiential, but since all not-for-profits offer similar functional benefits (“I buy from company X because I know they will help this cause”), a special importance should be given to the symbolic (“I feel like a good person”) and experiential benefits in NFPOs branding. The NFPOs Brand Identity should serve as a set of unchanging ideals and values that highlight, underlie and drive the mission of the organization (Stride, 2006), making only small adjustments to keep up with modern times.

Traditional Marketing strategies are not well-adapted to meet NFPOs goals. A new kind of marketing strategy needs to be developed in order to help NFPOs reach out to their three main marketing focus areas: clients, volunteers and donors or funders. Since these groups often have disparate communication needs (Stride and Lee, 2007), the not-for-profit philosophy (Bruce, 1998) is the common element that can flow through all, meaning that core values are key in terms of branding for NFPOs.

### **3. ADDRESSING THE WORK PROJECT TOPIC**

#### **3.1. Financial Profitability Analysis of the Summer Spring Collection 2017**

##### **3.1.1. Methodology**

In order to collect the information needed for this analysis, I had to involve myself in every aspect of RECLUSA to understand the earnings and the spending, since there was no organized information on this data. There was no physical record of what was being sold (the only information received by the Financial department was the total value of sales at the end of the month, extracted from the billing system), neither a confirmation of the Selling Price.

Although the initial idea was to analyze the two collections launched after the business model change, the analysis of the first collection (Fall Winter 2016) was not possible because of the lack of relevant information during the respective period, needed for a correct diagnostic of the collection. Because of that, only the second collection after the rebranding was considered for this Work Project.

With the help of the volunteer responsible for the Finances of RECLUSA, Carlos Mota, we obtained the production costs datasheets for each model and the Income Statements for the corresponding months. Those datasheets gave us the information of the indirect costs RECLUSA had to support each month, and the donations and quotas received during the considered period. Carlos also provided the information regarding the products Selling Price and the margins practiced on Consignment and Resale.

In order to gather the information regarding Collection sales, since this information was not collected in an organized way, each of the receipts registered on the billing system back office had to be individually analyzed, and sales in store separated from orders from re-sellers. Since the start of my evaluation of the sales in June 2017, I have kept constant track of new sales and orders.

The previous steps completed, I was finally able to start creating an accounting table (See Table 1). Table 1 consists on a Profit and Loss Account (P&L), adapted according to the specificity of analyzing a Fashion Collection. In this case the period taken into consideration in the P&L was between April and September of 2017 (5 months), since that was the time period between which the Collection was sold, and only the cash flows originated during this period were included in this analysis. The table gives us information on the total profitability of the collection, the profitability that each product (model) generated in the considered period, as well as a better notion regarding the origin of the majority of the indirect costs. These results provided valuable guidelines that were taken into consideration when making recommendations.

Considering the breakdown of indirect costs by model, the method used on this Work Project was to take sales value (weight) into consideration, dividing each of the indirect costs by model taking into account the percentage of revenue generated by each of them. This allocation base was chosen because it explains in a simple way the division of the indirect costs of RECLUSA, in the considered period, putting more weight on the models that sold more (were more significant for the Collection).

### **3.1.2. Main Insights from the analysis**

All the data that was collected and used in this analysis is displayed in tables presented from *Appendix 4* to *Appendix 15*.

Considering the relationship between production costs and the Selling Price, built from an initial Mark-up of 2.4 and then adjusted accordingly, the gross margins obtained in this Collection, per model, varies between 49.5% (Necessaire) and 67.7% (Fringe Key Chain). These are the margins RECLUSA obtained by selling in its Store.

The margins are very different in Resale and Consignment, in which RECLUSA receives a fixed margin of 20% for each product sold in the first case (i.e. Resale), and a variable margin (the maximum being 50% and the minimum 22.3%), depending on the product, in the latter (i.e. Consignment).

In terms of Sales volume, RECLUSA billing system registered a total of 354 products transacted in the Summer Spring 17 Collection, across the nine points of sale through which the Collection was made available to the general public. These 354 products sold (all discounts taken into account) generated a total of 15.625,80€, no value-added tax (VAT) included, or 19.219,73€ considering VAT.

*RECLUSA's Store* was responsible for 39.5% of the total sales in volume (i.e. 140 products sold during the six months considered - an average of 23 products per month), and for generating 51.1% of the total sales value. *REPÚBLICA DAS FLORES*, a Consignment seller, was the only other selling point to generate meaningful results, being responsible for 22.9% of the total sales and 21.4% of the total value (full values and percentages by selling point are displayed in *Appendix 9*). Both Resale stores made one single order during the collection period, and the sales value generated by those sales was low (only 16% of the total revenue). The Consignment stores made several orders, with fewer products. The *MARKET STYLISTA Fair* had a positive return since, for an initial investment of 500€, the selling of 16 products generated 925,18€. The same cannot be said of the *GREEN FEST*, in which the participation fee was superior to the return obtained (only one article was sold).

Considering the data in *Appendix 13*, 48.2% of total sales value was generated by the sales of only 5 models. Considering that a total of 21<sup>6</sup> models were commercialized, this means that the remaining 16 models only generated 51.8%.

---

<sup>6</sup> 21 models since we have to include the 3 models from the previous collection.

**Table 1. Profit and Loss Account Analysis of RECLUSA's Spring Summer Collection of 2017**

| Model name                         | Aztec    | Bandolera (Camel) | Bandolera (Citron/ Fuschia) | Beach Bag | Bucket Bag | Cluch Textile | Fringe Clutch | Fringe Key Chain | Leather Cluch | Mini Bucket Bag | Mini Shopper Bag |
|------------------------------------|----------|-------------------|-----------------------------|-----------|------------|---------------|---------------|------------------|---------------|-----------------|------------------|
| <b>A. Production (units)</b>       | 8        | 8                 | 11                          | 11        | 28         | 35            | 25            | 19               | 4             | 38              | 16               |
| <b>B. Sales (units)</b>            | 7        | 7                 | 11                          | 11        | 17         | 27            | 25            | 6                | 2             | 22              | 10               |
| <b>1. Direct Costs</b>             |          |                   |                             |           |            |               |               |                  |               |                 |                  |
| <b>1.1. Materials</b>              |          |                   |                             |           |            |               |               |                  |               |                 |                  |
| Raw Materials                      | € 19,96  | € 10,78           | € 9,85                      | € 10,50   | € 23,58    | € 3,20        | € 11,93       | € 1,07           | € 8,82        | € 18,36         | € 15,25          |
| Packaging                          | € 1,65   | € 1,63            | € 1,63                      | € 2,25    | € 1,63     | € 1,50        | € 1,63        | € 1,44           | € 1,50        | € 1,63          | € 2,25           |
| Waste                              | € 2,18   | € 1,72            | € 1,74                      | € 1,04    | € 2,76     | € 1,34        | € 1,33        | € 0,28           | € 0,99        | € 2,25          | € 1,98           |
| <b>1.2. Labor</b>                  |          |                   |                             |           |            |               |               |                  |               |                 |                  |
| Godinhos Factory                   | € 22,00  | € 22,00           | € 22,00                     |           | € 30,00    | € 22,00       |               |                  |               | € 25,00         | € 22,00          |
| Inmates in Tires Prison            |          |                   |                             | € 8,00    |            |               | € 13,00       | € 3,00           | € 9,50        |                 |                  |
| <b>TOTAL COST</b>                  | € 45,79  | € 36,13           | € 35,22                     | € 21,79   | € 57,97    | € 28,04       | € 27,89       | € 5,79           | € 20,81       | € 47,24         | € 41,48          |
| <b>2. Sales Revenue</b>            | € 606,03 | € 427,48          | € 678,29                    | € 515,29  | € 1 433,85 | € 1 355,95    | € 1 506,62    | € 87,67          | € 60,16       | € 1 718,84      | € 869,54         |
| <b>%</b>                           | 4%       | 3%                | 4%                          | 3%        | 9%         | 9%            | 10%           | 1%               | 0,4%          | 11%             | 6%               |
| <b>3. Cost of Goods Sold</b>       | € 320,53 | € 252,91          | € 387,42                    | € 239,69  | € 985,49   | € 757,08      | € 697,25      | € 34,74          | € 41,62       | € 1 039,28      | € 414,80         |
| <b>4. Gross Profit (2-3)</b>       | € 285,50 | € 174,57          | € 290,87                    | € 275,60  | € 448,36   | € 598,87      | € 809,37      | € 52,93          | € 18,54       | € 679,56        | € 454,74         |
| <b>5. Gross Profit per Unit</b>    | € 40,79  | € 24,94           | € 26,44                     | € 25,05   | € 26,37    | € 22,18       | € 32,37       | € 8,82           | € 9,27        | € 30,89         | € 45,47          |
| <b>6. Return on Sales (4/2)</b>    | 47%      | 41%               | 43%                         | 53%       | 31%        | 44%           | 54%           | 60%              | 31%           | 40%             | 52%              |
| <b>7. Indirect Costs</b>           |          |                   |                             |           |            |               |               |                  |               |                 |                  |
| Electricity / Water / Other fluids | €15,65   | €11,04            | €17,52                      | €13,31    | €37,04     | €35,03        | €38,92        | €2,26            | €1,55         | €44,40          | €22,46           |

**Table 1. Profit and Loss Account Analysis of RECLUSA's Spring Summer Collection of 2017 (cont.)**

| Model name   | Aztec            | Bandolera (Camel) | Bandolera (Citron/ Fuschia) | Beach Bag        | Bucket Bag         | Cluch Textile      | Fringe Clutch      | Fringe Key Chain | Leather Cluch   | Mini Bucket Bag    | Mini Shopper Bag  |
|--|------------------|-------------------|-----------------------------|------------------|--------------------|--------------------|--------------------|------------------|-----------------|--------------------|-------------------|
| Expenses with deslocations, representation and stays   | €3,11            | €2,19             | €3,48                       | €2,64            | €7,36              | €6,96              | €7,73              | €0,45            | €0,31           | €8,82              | €4,46             |
| Rents and Leases                                       | €15,73           | €11,09            | €17,60                      | €13,37           | €37,21             | €35,19             | €39,10             | €2,28            | €1,56           | €44,61             | €22,57            |
| Fees (Honorários)                                      | €117,44          | €82,84            | €131,44                     | €99,85           | €277,85            | €262,76            | €291,96            | €16,99           | €11,66          | €333,08            | €168,50           |
| Office Supplies  | €12,04           | €8,49             | €13,47                      | €10,24           | €28,48             | €26,93             | €29,93             | €1,74            | €1,19           | €34,14             | €17,27            |
| Communication  | €6,78            | €4,78             | €7,59                       | €5,76            | €16,04             | €15,17             | €16,85             | €0,98            | €0,67           | €19,23             | €9,73             |
| Insurance  | €4,51            | €3,18             | €5,05                       | €3,84            | €10,68             | €10,10             | €11,22             | €0,65            | €0,45           | €12,80             | €6,48             |
| Publicity  | €43,14           | €30,43            | €48,28                      | €36,68           | €102,06            | €96,51             | €107,24            | €6,24            | €4,28           | €122,34            | €61,89            |
| Specialized Works                                      | €30,63           | €21,60            | €34,28                      | €26,04           | €72,46             | €68,53             | €76,14             | €4,43            | €3,04           | €86,87             | €43,94            |
| Surveillance and Security                              | €19,47           | €13,74            | €21,80                      | €16,56           | €46,07             | €43,57             | €48,41             | €2,82            | €1,93           | €55,23             | €27,94            |
| Cleaning, Hygiene and Comfort                          | €1,40            | €0,99             | €1,57                       | €1,19            | €3,32              | €3,14              | €3,49              | €0,20            | €0,14           | €3,98              | €2,01             |
| Conservation and Repair                                | €46,54           | €32,83            | €52,09                      | €39,57           | €110,11            | €104,13            | €115,70            | €6,73            | €4,62           | €132,00            | €66,78            |
| Other Supplies and External Services                   | €71,04           | €50,11            | €79,51                      | €60,40           | €168,07            | €158,94            | €176,60            | €10,28           | €7,05           | €201,48            | €101,93           |
| Workers  | €234,08          | €165,11           | €261,99                     | €199,03          | €553,82            | €523,73            | €581,93            | €33,86           | €23,24          | €663,90            | €335,86           |
| Amortizations  | €178,74          | €126,08           | €200,05                     | €151,97          | €422,88            | €399,91            | €444,35            | €25,86           | €17,74          | €506,94            | €256,45           |
| <b>TOTAL INDIRECT COSTS</b>                            | <b>€ 800,29</b>  | <b>€ 564,51</b>   | <b>€ 895,72</b>             | <b>€ 680,47</b>  | <b>€ 1 893,47</b>  | <b>€ 1 790,60</b>  | <b>€ 1 989,57</b>  | <b>€ 115,77</b>  | <b>€ 79,44</b>  | <b>€ 2 269,82</b>  | <b>€ 1 148,27</b> |
| <b>7. Net Income (4-7)</b>                             | <b>-€ 514,79</b> | <b>-€ 389,94</b>  | <b>-€ 604,85</b>            | <b>-€ 404,87</b> | <b>-€ 1 445,11</b> | <b>-€ 1 191,73</b> | <b>-€ 1 180,20</b> | <b>-€ 62,84</b>  | <b>-€ 60,90</b> | <b>-€ 1 590,26</b> | <b>-€ 693,53</b>  |
| <b>8. Net Income per Unit</b>                          | <b>-€ 73,54</b>  | <b>-€ 55,71</b>   | <b>-€ 54,99</b>             | <b>-€ 36,81</b>  | <b>-€ 85,01</b>    | <b>-€ 44,14</b>    | <b>-€ 47,21</b>    | <b>-€ 10,47</b>  | <b>-€ 30,45</b> | <b>-€ 72,28</b>    | <b>-€ 69,35</b>   |
| <b>9. ROS - Net Income / Sales Revenues</b>            | <b>-85%</b>      | <b>-91%</b>       | <b>-89%</b>                 | <b>-79%</b>      | <b>-101%</b>       | <b>-88%</b>        | <b>-78%</b>        | <b>-72%</b>      | <b>-101%</b>    | <b>-93%</b>        | <b>-80%</b>       |
| <b>10. Donations, Grants &amp; Quotas</b>              | <b>€ 824,78</b>  | <b>€ 581,78</b>   | <b>€ 923,12</b>             | <b>€ 701,28</b>  | <b>€ 1 951,40</b>  | <b>€ 1 845,38</b>  | <b>€ 2 050,44</b>  | <b>€ 119,31</b>  | <b>€ 81,87</b>  | <b>€ 2 339,26</b>  | <b>€ 1 183,40</b> |
| <b>11. Net Income + Donations, Grants &amp; Quotas</b> | <b>€ 309,98</b>  | <b>€ 191,84</b>   | <b>€ 318,27</b>             | <b>€ 296,42</b>  | <b>€ 506,29</b>    | <b>€ 653,65</b>    | <b>€ 870,24</b>    | <b>€ 56,47</b>   | <b>€ 20,97</b>  | <b>€ 749,00</b>    | <b>€ 489,87</b>   |



**Table 1. Profit and Loss Account Analysis of RECLUSA's Spring Summer Collection of 2017 (cont.)**

| Model name                         | Necessaire | Porta Moedas | Shopper Bag Black | Shopper Bag Camel | Triangle | Wallet Mocho / Vaca | Wallet Zebra / Chita | Weekend Bag | Zipper XL | Zipper XS | TOTAL       |
|------------------------------------|------------|--------------|-------------------|-------------------|----------|---------------------|----------------------|-------------|-----------|-----------|-------------|
| A. Production (units)              | 12         | 44           | 2                 | 11                | 28       | 46                  | 24                   | 16          | 40        | 43        | 469         |
| B. Sales (units)                   | 9          | 32           | 2                 | 11                | 27       | 33                  | 20                   | 9           | 25        | 41        | 354         |
| 1. Direct Costs                    |            |              |                   |                   |          |                     |                      |             |           |           |             |
| 1.1. Materials                     |            |              |                   |                   |          |                     |                      |             |           |           |             |
| Raw Materials                      | € 4,15     | € 7,82       | € 23,70           | € 25,30           | € 2,75   | € 6,04              | € 2,69               | € 52,88     | € 5,22    | € 1,96    |             |
| Packaging                          | € 1,63     | € 1,63       | € 2,25            | € 2,25            | € 1,44   | € 1,44              | € 1,44               | € 2,25      | € 1,44    | € 1,50    |             |
| Waste                              | € 0,94     | € 1,42       | € 2,40            | € 2,48            | € 0,27   | € 0,48              | € 0,48               | € 4,36      | € 0,58    | € 0,32    |             |
| 1.2. Labor                         |            |              |                   |                   |          |                     |                      |             |           |           |             |
| Godinhos Factory                   |            | € 19,00      | € 22,00           | € 22,00           |          |                     |                      | € 32,00     |           |           |             |
| Inmates in Tires Prison            | € 13,00    |              |                   |                   | € 1,25   | € 2,13              | € 2,13               |             | € 5,00    | € 3,00    |             |
| TOTAL COST                         | € 19,72    | € 29,87      | € 50,35           | € 52,03           | € 5,71   | € 10,09             | € 6,74               | € 91,49     | € 12,24   | € 6,78    |             |
| 2. Sales Revenue                   | € 293,18   | € 1 523,96   | € 169,10          | € 1 118,68        | € 244,83 | € 488,37            | € 256,88             | € 1 264,50  | € 560,68  | € 445,90  | € 15 625,80 |
| %                                  | 2%         | 10%          | 1%                | 7%                | 2%       | 3%                  | 2%                   | 8%          | 4%        | 3%        |             |
| 3. Cost of Goods Sold              | € 177,48   | € 955,84     | € 100,70          | € 572,33          | € 154,17 | € 332,97            | € 134,80             | € 823,41    | € 306,00  | € 277,98  | € 9 006,49  |
| 4. Gross Profit (2-3)              | € 115,70   | € 568,12     | € 68,40           | € 546,35          | € 90,66  | € 155,40            | € 122,08             | € 441,09    | € 254,68  | € 167,92  | € 6 619,31  |
| 5. Gross Profit per Unit           | € 12,86    | € 17,75      | € 34,20           | € 49,67           | € 3,36   | € 4,71              | € 6,10               | € 49,01     | € 10,19   | € 4,10    |             |
| 6. Return on Sales (4/2)           | 39%        | 37%          | 40%               | 49%               | 37%      | 32%                 | 48%                  | 35%         | 45%       | 38%       |             |
| 7. Indirect Costs                  |            |              |                   |                   |          |                     |                      |             |           |           |             |
| Electricity / Water / Other fluids | €7,57      | €39,37       | €4,37             | €28,90            | €6,32    | €12,62              | €6,64                | €32,66      | €14,48    | €11,52    | € 403,64    |

**Table 1. Profit and Loss Account Analysis of RECLUSA's Spring Summer Collection of 2017 (cont.)**

| Model name   | Necessaire       | Porta Moedas       | Shopper Bag Black | Shopper Bag Camel | Triangle         | Wallet Mocho / Vaca | Wallet Zebra / Chita | Weekend Bag        | Zipper XL        | Zipper XS        | TOTAL               |
|--|------------------|--------------------|-------------------|-------------------|------------------|---------------------|----------------------|--------------------|------------------|------------------|---------------------|
| Expenses with deslocations, representation and stays   | €1,50            | €7,82              | €0,87             | €5,74             | €1,26            | €2,51               | €1,32                | €6,49              | €2,88            | €2,29            | € 80,20             |
| Rents and Leases                                       | €7,61            | €39,55             | €4,39             | €29,03            | €6,35            | €12,67              | €6,67                | €32,81             | €14,55           | €11,57           | € 405,50            |
| Fees (Honorários)                                      | €56,81           | €295,32            | €32,77            | €216,78           | €47,44           | €94,64              | €49,78               | €245,04            | €108,65          | €86,41           | € 3 028,00          |
| Office Supplies  | €5,82            | €30,27             | €3,36             | €22,22            | €4,86            | €9,70               | €5,10                | €25,12             | €11,14           | €8,86            | € 310,37            |
| Communication  | €3,28            | €17,05             | €1,89             | €12,51            | €2,74            | €5,46               | €2,87                | €14,15             | €6,27            | €4,99            | € 174,80            |
| Insurance  | €2,18            | €11,35             | €1,26             | €8,33             | €1,82            | €3,64               | €1,91                | €9,42              | €4,18            | €3,32            | € 116,40            |
| Publicity  | €20,87           | €108,47            | €12,04            | €79,62            | €17,43           | €34,76              | €18,28               | €90,00             | €39,91           | €31,74           | € 1 112,20          |
| Specialized Works                                      | €14,82           | €77,02             | €8,55             | €56,54            | €12,37           | €24,68              | €12,98               | €63,91             | €28,34           | €22,53           | € 789,70            |
| Surveillance and Security                              | €9,42            | €48,97             | €5,43             | €35,95            | €7,87            | €15,69              | €8,25                | €40,63             | €18,02           | €14,33           | € 502,11            |
| Cleaning, Hygiene and Comfort                          | €0,68            | €3,53              | €0,39             | €2,59             | €0,57            | €1,13               | €0,60                | €2,93              | €1,30            | €1,03            | € 36,20             |
| Conservation and Repair                                | €22,52           | €117,03            | €12,99            | €85,91            | €18,80           | €37,50              | €19,73               | €97,11             | €43,06           | €34,24           | € 1 200,00          |
| Other Supplies and External Services                   | €34,37           | €178,64            | €19,82            | €131,13           | €28,70           | €57,25              | €30,11               | €148,22            | €65,72           | €52,27           | € 1 831,63          |
| Workers  | €113,24          | €588,62            | €65,31            | €432,09           | €94,56           | €188,63             | €99,22               | €488,41            | €216,56          | €172,23          | € 6 035,41          |
| Amortizations  | €86,47           | €449,46            | €49,87            | €329,93           | €72,21           | €144,03             | €75,76               | €372,94            | €165,36          | €131,51          | € 4 608,51          |
| <b>TOTAL INDIRECT COSTS</b>                            | <b>€ 387,16</b>  | <b>€ 2 012,47</b>  | <b>€ 223,31</b>   | <b>€ 1 477,27</b> | <b>€ 323,31</b>  | <b>€ 644,92</b>     | <b>€ 339,22</b>      | <b>€ 1 669,84</b>  | <b>€ 740,41</b>  | <b>€ 588,83</b>  | <b>€ 20 634,67</b>  |
| <b>7. Net Income (4-7)</b>                             | <b>-€ 271,46</b> | <b>-€ 1 444,35</b> | <b>-€ 154,91</b>  | <b>-€ 930,92</b>  | <b>-€ 232,65</b> | <b>-€ 489,52</b>    | <b>-€ 217,14</b>     | <b>-€ 1 228,75</b> | <b>-€ 485,73</b> | <b>-€ 420,91</b> | <b>-€ 14 015,36</b> |
| <b>8. Net Income per Unit</b>                          | <b>-€ 30,16</b>  | <b>-€ 45,14</b>    | <b>-€ 77,45</b>   | <b>-€ 84,63</b>   | <b>-€ 8,62</b>   | <b>-€ 14,83</b>     | <b>-€ 10,86</b>      | <b>-€ 136,53</b>   | <b>-€ 19,43</b>  | <b>-€ 10,27</b>  |                     |
| <b>9. ROS - Net Income / Sales Revenues</b>            | <b>-93%</b>      | <b>-95%</b>        | <b>-92%</b>       | <b>-83%</b>       | <b>-95%</b>      | <b>-100%</b>        | <b>-85%</b>          | <b>-97%</b>        | <b>-87%</b>      | <b>-94%</b>      | <b>-90%</b>         |
| <b>10. Donations, Grants &amp; Quotas</b>              | <b>€ 399,00</b>  | <b>€ 2 074,04</b>  | <b>€ 230,14</b>   | <b>€ 1 522,47</b> | <b>€ 333,20</b>  | <b>€ 664,65</b>     | <b>€ 349,60</b>      | <b>€ 1 720,92</b>  | <b>€ 763,06</b>  | <b>€ 606,85</b>  | <b>€ 21 265,96</b>  |
| <b>11. Net Income + Donations, Grants &amp; Quotas</b> | <b>€ 127,54</b>  | <b>€ 629,69</b>    | <b>€ 75,23</b>    | <b>€ 591,55</b>   | <b>€ 100,55</b>  | <b>€ 175,13</b>     | <b>€ 132,46</b>      | <b>€ 492,18</b>    | <b>€ 277,33</b>  | <b>€ 185,93</b>  | <b>€ 7 250,60</b>   |

### 3.2. Main Issues

This analysis revealed some issues that RECLUSA needs to overcome in order to achieve its objectives.

One of the first insights that can be drawn is that RECLUSA is not selling enough. Total sales of 354 products for a Collection is a low number, especially considering that at least 127 of those products were small objects like wallets or key chains, with a low sales value (see *Appendix 13* for exact numbers). Besides that, *RECLUSA's STORE*, which is the main selling point and contact with the brand, generated only 140 sales, from which 38.6% of those products were sold at a discount price. This shows that RECLUSA is not only generating a low volume of sales in general, but above all it's not selling enough in its main point of sale, which can be mainly explained by the low consumer attendance verified at the store at Rua das Amoreiras<sup>7</sup>. The big percentage of products sold at discount (detailed in *Appendix 12*) is also a problem. The analysis of the other points of sale shows that only *REPÚBLICA DAS FLORES* generated a significant value of sales, in terms of both quantity and value. The remaining points of sale have not only generated low values, but also took a lot of time to pay back their orders, which has had a very negative impact on RECLUSA's financial stability.

This leads us to another issue, which is the margins received through Consignment and Resale. The fact that RECLUSA only received a 20% margin for each product sold through Resale, and between 22% to 50% through Consignment, is unsustainable. The margins obtained by selling directly to the consumer are also somewhat low for some of the products. By analyzing the margins of similar businesses, we found out that the standard gross margin for this kind of business is around 60%. Considering that the gross margins in this Collection varied between 49.5% (Necessaire) and 67.7% (Fringe Key Chain), and that 15 models out

---

<sup>7</sup> Liliana's (the store manager) feedback is, that in a normal day, one to three people maximum enter the store.

of 21 were commercialized with a gross margin below 60% (*Appendix 5*), this means that, once again, RECLUSA lost revenue. This may be happening for three different reasons: the prices are too low, production costs are too high, or most likely a combination of both factors. The fact that prices had to be established before the final costs were fully calculated may have also impacted this discrepancy in margins. Considering the aspects mentioned above, two tables were constructed. *Appendix 16* presents the needed Selling Price to reach the correspondent gross margin of 60%, considering the existing production costs. The visual representation in *Appendix 17* gives a better notion of how distant are the necessary Selling Prices from the ones used. While some products are “closer” to achieving the 60% gross margin, others require a much larger increase in price, which may turn the product too expensive for costumers to even consider it. As an alternative to a price increase, *Appendix 18* provides the necessary decrease in final costs, considering the Selling Prices used, to achieve the desired margin.

By analyzing the Profit and Loss Account in Table 1, it is possible to confirm that the Spring Summer Collection of 2017 Sales were not sufficient to sustain RECLUSA, since, without adding Donations and the other external aids, the Net Profit for all models is negative. Another conclusion is that the Indirect Costs registered in the Income Statements seem too high to the reality of the business. As a not-for-profit organization RECLUSA receives a lot of “offered” (i.e. gratuitous) services and materials, which leads to the idea that maybe some values in the Income Statement in *Appendix 15* may be incorrect.

#### **4. RECOMMENDATIONS**

##### **Addressing the 1<sup>st</sup> ISSUE – Low Margins**

##### **a) Increase Gross Margin**

The first aspect RECLUSA needs to change in the new Collections is the expected margin. One source of financial vulnerability for NFPOs is Low operation margins (Tuckman and

Chang, 1991), so RECLUSA needs to guarantee that the Selling Price of its products is established according to the defined 60% gross margin. This percentage is the minimum RECLUSA should look for while selling its products directly to the consumer, based on the strategy used in similar businesses. Apart from that, and considering what happened in the previous Collection, all models need to have their technical sheet completed at least three months before they are sold, so that final costs can be carefully calculated in order to set Selling Prices correctly according to the 60% margin. After the prices are set, it is fundamental to carry out a focus group with respondents who belong to the target and potential consumer group, to understand if the product will sell at the price set or if it needs to be adjusted. If the final price is too high to the consumer with the 60% margin for any model, RECLUSA must decide not to manufacture those products.

#### **b) Reduce Costs**

RECLUSA should review its production costs and try to negotiate with current suppliers in order to lower the costs. In addition to that, RECLUSA should establish new partnerships with national manufacturers to provide in-kind donations (Snaveley and Tracy, 2000) in the form of raw materials. The new Designer of the Spring Summer Collection 18 (currently being finalized) was the first to say that the costs of the raw materials used by RECLUSA were too high to what she was used to work with. An immediate suggestion was to search new suppliers in the Northern region of Portugal, who are known for their better price-quality relation.

Another solution to lower production costs is to progressively move all the production to Tires' prison. At this moment, approximately half of the production is done in Tires, and the remaining production is done at the factory of Emílio Godinho. At the end of October, RECLUSA applied to an Award<sup>8</sup> - *Prémio Fidelidade Comunidade* - to receive funding for the

---

<sup>8</sup> <http://fidelidadecomunidade.pt/>

project of moving Emílio Godinho's factory to Tires. If approved, this project will provide an opportunity for more inmates to learn the craft and in a bigger scale, generating a greater impact to RECLUSA, while contributing for the creation of products whose revenues will contribute to their own reinsertion in the "outside world". An additional aspect of the project will involve the transportation of inmates to work at the atelier and store at Rua das Amoreiras, during their conditional period. This will allow them to work at the store, manufacturing or selling, while giving them a sense of liberty that the walls of prison has taken from them.

## **Addressing the 2<sup>nd</sup> ISSUE – Low Consignment and Resale Margins**

### **a) Increase Consignment and Resale Margins**

Consignment and Resale margins have to be reviewed for the next Collections since they are negatively affecting RECLUSA's own margin. Despite technically being a Fashion brand, due to its social mission, RECLUSA cannot be treated as any other Fashion brand to which generating profit for itself is the main goal. It makes no sense that re-sellers are taking such high margins when the main reason to sell the products should be for them to contribute to the social cause. This means that distributors who want to create a relationship with RECLUSA must be moved by the social mission of the brand and not by their own desire to make profit.

The recommended new margins are 15% to Resale partners and 10% to Consignment. This way, the biggest percentage of the profit obtained by each product sale will go to RECLUSA and only re-sellers that are really interested in RECLUSA's cause will remain as partners.

### **b) Maintain only the valuable re-sellers and attract new ones**

In the same way, the number and quality of current re-sellers also need to be revised. With the exception of *REPÚBLICA DAS FLORES*, none of the other re-sellers has proved to be a valuable partner. In this sense, the new margins policy explained above can be a good way to

select the re-sellers that are involved for the charitable reasons and truly want to support RECLUSA's goal.

Additionally, RECLUSA needs to look for new valuable partners (i.e. those interested in RECLUSA's social impact). Consumers are increasingly more socially conscious and concerned in purchasing from organizations that do well by doing good, so engaging in social projects is a growing interest for every member of the value chain. Taking this into account, RECLUSA can develop a "partnership plan" to attract new re-sellers, through which, by selling RECLUSA's products by the low margins established they would gain awareness for their "good practices". This could be done through periodically communication of their part on the project through RECLUSA's social networks, the inclusion of their logo and address in RECLUSA's website (to be launched in 2018), and the invitation to take part of the events organized by RECLUSA, such as the launch of new collections.

### **Addressing the 3<sup>rd</sup> ISSUE – Low Consumer Attendance at *RECLUSA's Store***

The low consumer attendance at *RECLUSA's Store* is not connected to the location of the store, but to the fact that potential consumers do not know that it exists. Although the brand has a reasonable level of recognition, the levels of recall are low and people seem unaware of the store's existence and consequently, its location. Additionally, the store is located at Rua das Amoreiras, in a privileged area, but in a busy street, where the volume of people driving is a lot higher than people passing by foot. *RECLUSA's Store* is the primary selling point of the brand and the first direct point of contact consumers can have with RECLUSA, since the store is operated by an ex-inmate and it's the only place where all the models are available for people to view or touch. That's why it's imperative for RECLUSA to attract more consumers there, and consequently increase store profitability.

There are several marketing actions that can be undertaken in order to achieve this:

#### **a) Maintain an appellative Store and more attractive Store Windows**

It's important that RECLUSA maintains a store environment and visual that reflects the Identity of the brand and represents itself. Store music that appeals to the target women group is essential, as well as keeping the place clean and organized, in order to provide the right environment for RECLUSA's consumers. The store windows' decorations also need to be updated more often and to be able to attract the eye of people passing by. With black awnings and windows that reflect daylight, RECLUSA's store windows are less effective in attracting customers during the day, since it's difficult to discern what the windows display. Visual merchandise outside the store, like posters or signs, could be a good way to work around this issue. During the night, however, the lights that remain lit on the store windows allow a good display of its contents.

#### **b) Store Location on RECLUSA's Social Media**

Currently, RECLUSA's social media platforms do an effective job in communicating the models that are for sale but there are other aspects that should be mentioned more often. RECLUSA's official Facebook<sup>9</sup> page and Instagram<sup>10</sup> profile need to mention more frequently the location of the Store at Rua das Amoreiras. Consumers need to see the address in a regular basis, and not just in image descriptions, as well as the information regarding the store's opening and closing hours.

Additionally, Social Enterprises like RECLUSA have the role of not only communicating the benefits of the products offered but also to communicate how they are contributing to the improvement of society while doing so. In order to have a bigger impact, RECLUSA must convey its "special mission" in its communication. This said, RECLUSA's social media also

---

<sup>9</sup> <https://www.facebook.com/reclusapt/>

<sup>10</sup> <https://www.instagram.com/reclusa/>



needs to find a way to better communicate RECLUSA's cause without transforming it in the main reason for people to buy the products.

Apart from that, RECLUSA's website is to be launched in 2018, having been delayed due to the difficulty in finding gratuitous website developers. Taking into consideration the aforementioned date, this represents another opportunity for articulation between the physical store and the online platforms of the brand. The site can have a crucial role in spreading the word about RECLUSA's location and mission in an organized manner and should allow consumers to order and buy online.

### **c) Use Brand Advocates**

A good way to increase brand (and store) awareness, engage more people into the project and potentially increase sales, is to use the people in the RECLUSA project (i.e. its network). This can be done through Influencers, which are people with a large number of followers, that can influence their "audience" about a brand. Brand Influencers are normally divided into Brand Advocates and Brand Ambassadors. Brand Ambassadors are hired by brands for a long-term relationship to represent and talk about the company/organization in a positive way in front of consumers. In the case of Brand Advocates, they are "earned" instead of being hired by companies, and can be customers, partners, shareholders or employees (brand loyalists) who engage with the brand because they truly love it and will take action if asked, without compensation.

Having these definitions in mind, and considering the specific mission of the brand, it makes no sense for RECLUSA to have Brand Ambassadors. However, regarding Brand Advocates, challenging people who are already involved in the project and love the brand into becoming true Advocates, can bring a great impact to RECLUSA. It makes sense that the first people to be challenged are RECLUSA's Associates. They are the people who better know the project, who continue giving their contribution to the brand, and so represent the best source of

divulcation of the project, spreading the word about the brand (word-of-mouth), increasing awareness in general and generating positive sentiments towards the brand.

As RECLUSA's Advocates, each person would have two main responsibilities. First, to advertise the brand in their social networks, making a monthly post to divulgate RECLUSA's ongoing projects, collections or special promotions, and secondly, to organize a closed door "nocturnal sale" for each collection launched. In terms of the materials to be published in their social network, everything would be provided beforehand to each Advocate, posting dates included, to enable as little work as possible for the Advocates in that matter. The nocturnal sale would consist in each advocate organizing a group of people they think would be interested in knowing more about the brand and potentially buying its products, and dedicate that night into introducing RECLUSA to them. *RECLUSA's Store* would be open after closing hours, only for that event, and the night would be dedicated to show selected models, offering a special moment accompanied by some food and wine and a symbolic 5% discount.

#### **d) Use Celebrity Endorsement and maintain those relationships**

These Brand Advocates can also be celebrities. Engaging celebrities in social projects is a great way to bring awareness and increase support to social causes. RECLUSA's relationship with the influencer Maria Guedes (Stylista), provided by the participation of RECLUSA, by invitation, in the blogger's Summer Market, although short term, represented a boost in sales and store attendance, due to the products divulgated in her blog and other social media. This demonstrated that celebrity endorsement can have a big impact in a brand like RECLUSA. The fact that the relationship ended without further contact also demonstrates that RECLUSA needs someone that can attract, manage and maintain this kind of relationships with possible Influencers that can generate engagement with the brand, gratuitously.

Having a carefully selected celebrity, that embraces the brand ideals and can advertise it to the general public, will boost awareness and possibly generate more favorable partnerships

thanks to that divulgation. Considering these aspects, Cláudia Vieira is a good example of a celebrity that stands accordingly to the values of RECLUSA, that is followed and looked upon by the brand's target group, and, as a woman who is concerned about social causes, can find it interesting to become part of RECLUSA's project.

Celebrities usually want to ensure the legitimacy of the organization and see the impact it is producing in the source of its social mission, so a good way to contact celebrities that may interest the brand is to invite them to know the brand first hand or be part of an organized event with the same purpose. Contacting the celebrity publicist to make the invitation can be the most direct way to establish that first contact.

**e) Have a Designer that produces appealing and stylish models**

The success of the brand depends on the success of selling the bags created, so it's necessary to guarantee that the Collection will sell well, before it starts being commercialized. In this sense, the new designer of the brand has to maintain a high sensitivity to consumers' needs and desires, as well as to the new trends of the year/season, in order to create and produce models that match the brand Identity and can seduce the consumers.

**f) Conduct Workshops in the Atelier annexed to the Store**

The realization of Workshops in the atelier connected to *RECLUSA's Store* (already done in the past) represents a good way to increase movement in the store and attract potential buyers. Workshops could be conducted by ex-inmates as a way to gain extra money by teaching the crafts learned during their prison time. Workshops dedicated to sewing, manufacturing of luggage or accessories, painting of fabrics, as well as workshops related to crafting in general, are trendy at the moment and RECLUSA could take advantage of this trend.

## **5. LIMITATIONS**

During the development of this work project I felt some limitations. First, I entered the project in a moment of change in RECLUSA's internal structure, when a lot of people were leaving the project and others were entering, which made it difficult to coordinate everyone. The general lack of organization, natural in organizations that heavily depend on volunteer work, led to a big delay in retrieving some of the information, and some proved unable to find. This happened with the majority of data concerning 2016 and with the first collection launched after the rebranding. Also, the billing system was changed in January 2017 and all information from the previous system was lost, since no analysis or exportation of those files were made. Secondly, and as a result of the situation previously stated, although the rebranding process happened during September 2016 and two collections were created and sold until the end period considered for the Master Thesis, September 2017, I could only analyze the second collection due to the lack of information on the Fall Winter Collection of 2017. Even though meaningful conclusions were taken from this Work Project, the analysis of two collections may have brought even more insights. In conclusion, since I spent a lot of my time in RECLUSA being involved in every aspect of the brand, I sometimes felt difficulty in distancing myself from the study while writing this Work Project, specially while writing the recommendations' section. Due to my awareness of the difficulties felt and tackled by RECLUSA, it was conflicting not to remove untested suggestions, for fear they wouldn't be possible to execute.

## 6. REFERENCES

- Aaker, D.** 1996. *Building Strong Brands*. New York: Free Press.
- Aoki, N.** 2003. Nonprofits grow more aggressive in building, protecting marketable trademarks. *Boston Globe*, July 26: B4.
- Arnett, D. B., German, S. D. and Hunt, S. D.** 2003. "The identity salience model of relationship marketing success: The case of nonprofit marketing." *Journal of Marketing*, 67: 89–105.
- Basu, A. and Wang, J.** 2009. "The Role of branding in Public Health Campaign." *Journal of Communication Management*, 13: 77-91.
- Battiliana, J., Lee, M., Walker J. and Dorsey, C.** 2012. "In Search of the Hybrid Ideal", *Stanford Social Innovation Review*.
- Bennett, R. and Gabriel, H.** 2003. Image and reputational characteristics of UK charitable organizations: an empirical study. *Corp Reputation Review* 6(3): 276–289. doi.org/10.1057/palgrave.crr.1540206.
- Berger, I. E., Cunningham, P. H. and Drumwright, M. E.** 2004. Social alliances: Company/ nonprofit collaboration. *California Management Review*, 47(1): 58–90. doi.org/10.1080/15245004.1999.9961060.
- Clarke, P. and Mount, P.** 2001. "Non-profit marketing: The key to marketing's 'mid-life crisis?'" *International Journal of Nonprofit and Voluntary Sector Marketing*, 6: 78–91. doi:10.1002/nvcm.135
- Dart, R.** 2004. "Being 'business-like' in a nonprofit organization: A grounded and inductive typology." *Nonprofit and Voluntary Sector Quarterly*, 33(2): 290–310. doi.org/10.1177/0899764004263522
- Dees, J. G.** 1998. Enterprising nonprofits. *Harvard Business Review*, 76 (1): 54-67.
- Dees, J. G. and Anderson, B. B.** 2006. "Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought". In *Research on Social Entrepreneurship*, 1 (3): 39-66.
- Emerson, J.** (2003). The blended value proposition: Integrating Social and Financial Returns. *California management review*, 45(4): 35-51.
- Gerard, D.** 1983. *Principles of Accounting*. Sydney: Harcourt Brace and Company.
- Hayman, J.** 2013. "How charities can become more entrepreneurial", *The Guardian*. Accessed October 18. Retrieved from <https://www.theguardian.com/social-enterprise-network/2013/apr/11/charities-become-entrepreneurial>
- Jean Francois, E.** 2015. *Financial Sustainability for Nonprofit Organizations*. New York: Springer Publishing Company.
- Katz, R. D.** 2005. "The not-for-profit sector: No longer about just raising funds." *Journal of Private Equity*. 8, (2):110–113.

- Keller, K. L.** 2013. *Strategic Brand Management: building, measuring and managing brand equity*. Boston: Pearson.
- Kramer, R.** 1981. *Voluntary Agencies in the Welfare State*. Los Angeles: University of California Press.
- Kylander, N. and Stone C.** 2012. "The role of brand in the non-profit sector." Accessed 25 October. Retrieved from [https://ssir.org/articles/entry/the\\_role\\_of\\_brand\\_in\\_the\\_nonprofit\\_sector](https://ssir.org/articles/entry/the_role_of_brand_in_the_nonprofit_sector)
- Laidler-Kylander, N., Quelch, J. and Simonin, B.** 2007. "Building and valuing global brands in the nonprofit sector." *Nonprofit Management and Leadership*, 17: 253–277. doi:10.1002/nml.149
- Mitchell, M.** 2016. "The difference between Influencers, Brand Ambassadors and Brand Advocates". Accessed December 2. Retrieved from <http://wearelmsblog.com/the-difference-between-influencers-brand-ambassadors-and-brand-advocates/>
- Money, K., Money, A., Downing, S., and MacMillan, K.** 2005. "Relationship marketing and the not-for-profit sector: An extension and application of the commitment- trust theory." In *Journal of Business Research*, 58(6): 806-818. doi.10.1016/j.jbusres.2003.08.008.
- Murray, G.** 2012. "Should your charity become a social enterprise?". Accessed October 18. Retrieved from <https://www.theguardian.com/voluntary-sector-network/2012/oct/15/charity-social-enterprise>
- Nyssens, M.** 2006. *Social enterprise: At the crossroads of market, public policies and civil society*. New York: Routledge.
- O'Cass, A. and R. Voola.** 2011. "Explications of Political Market Orientation and Political Brand Orientation Using the Resource Based View of the Political Party." *Journal of Marketing Management*, 27 (5–6): 627–645.
- Peredo, A. M. and McLean, M.** 2006. "Social Entrepreneurship: A Critical Review of the Concept", *Journal of World Business*, 41 (1): 56-65.
- Porter, M. E.** 1996. What is Strategy?. *Harvard Business Review*, 61-78.
- Senge, P. M.** 1990. *The Fifth Discipline: the Art and Practice of the Learning Organization*. New York: Doubleday/Currency.
- Sheehan, R.** 1999. "Achieving Growth and High Quality by Strategic Intent." *Nonprofit Management and Leadership*, 9(4): 413-28. doi.10.1002/nml.9406.
- Smith, W.K., Besharov, M.L., Wessels, A.K., and Chertok, M.** (2012). A paradoxical leadership model for social entrepreneurs: Challenges, leadership skills, and pedagogical tools for managing social and commercial demands. *Academy of Management Learning and Education*, 11(3), 463-478. doi.10.5465/amle.2011.0021
- Snavely, K. and Tracy, M.** 2000. "Collaboration among rural nonprofit organizations." *Nonprofit Management and Leadership*, 11: 145–165. doi.10.1002/nml.11202.

**Social Enterprise UK.** 2012. Why Social Enterprise: A guide for charities. Accessed September 29. Retrieved from <https://www.socialenterprise.org.uk/why-social-enterprise-a-guide-for-charities>

**Stride, H.** 2006. "An investigation into the values dimension of branding: implications for the charity sector." *International Journal of Nonprofit and Voluntary Sector Marketing*, 11: 115–124. doi:10.1002/nvsm.44

**Stride, H. and S. Lee.** 2007. "No logo? No way. Branding in the Non-Profit Sector." *Journal of Marketing Management*, 23 (2): 107–122. doi.org/10.1362/026725707X178585.

**Tuckman, H. P. and Chang, C. F.** 1991. "A Methodology for Measuring the Financial Vulnerability of Charitable Nonprofit Organizations". *NonProfit and Voluntary Sector Quarterly*, 20 (4): 445-460. doi.org/10.1177/089976409102000407.

**Valentinov, V.** 2008. "The economics of nonprofit organization: In search of an integrative theory." *Journal of Economic Issues*, 17(3): 745–761. doi.org/10.1080/00213624.2008.11507177.

**Venable, B., Rose, G., Bush, V. and Gilbert, F.** 2005. "The role of brand personality in charitable giving: an assessment and validation." *Journal of the Academy of Marketing Science*, 33(3): 295–312. doi.org/10.1177/0092070305276147.

**Weisbrod, B. A.** 1998. "The nonprofit mission and its financing." *Journal of Policy Analysis and Management*, 17(2): 165–174. doi.10.1002/(SICI)1520-6688(199821)17:2<165:AID-PAM3>3.0.CO;2-F.

**Wijkstrom, F.** 1997. "The Swedish nonprofit sector in international comparison". *Annals of Public and Cooperative Economics*, 68(4): 625–663. doi.10.1111/1467-8292.00067

**Yu, H.** 2017. "Influencers VS Brand Ambassadors VS Brand Advocates." Accessed on December 2. Retrieved from <https://www.linkedin.com/pulse/influencers-vs-brand-ambassadors-advocates-heidi-yu/>

**How can a Portuguese not-for-profit organization make a  
successful transition to the Social Enterprise model, becoming less  
dependent on donations and grants in order to fulfill its Social  
Mission: the case of RECLUSA**



## **APPENDIXES**

Ana Carolina Batista, 3326

A Project carried out within the Master in Management Program under the  
supervision of: Catherine Da Silva

23.01.2018



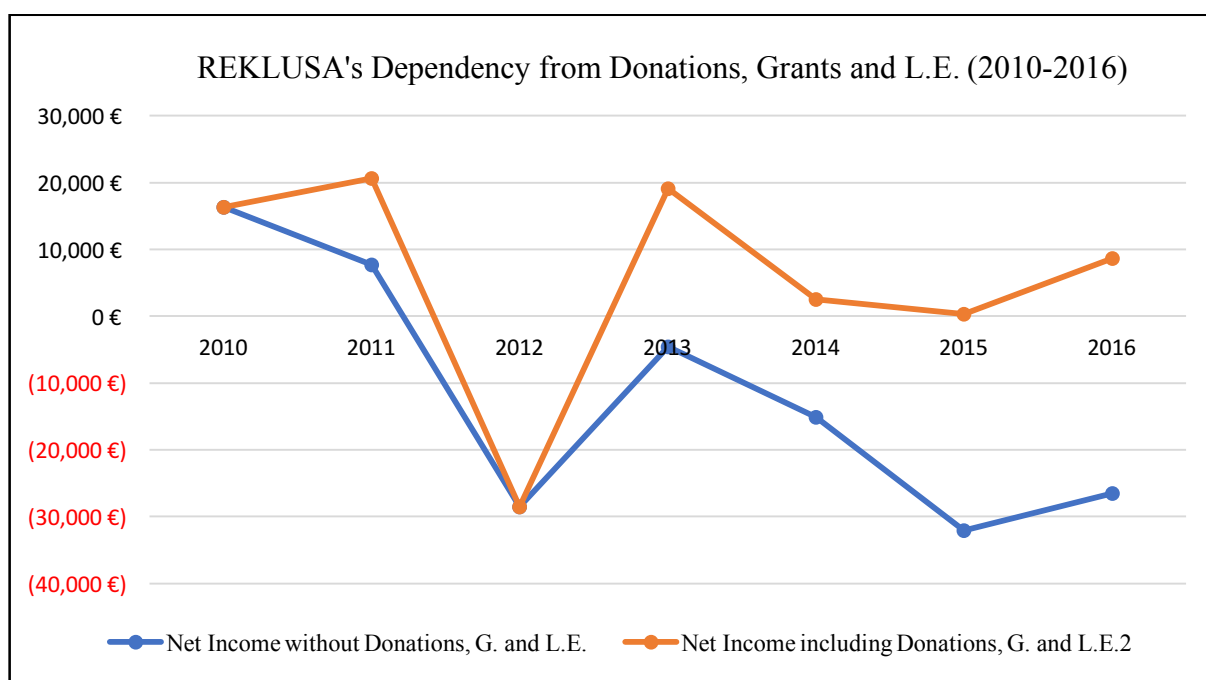
## Table of Contents

|  |    |
|--|----|
| Appendix 1. REKLUSA's Net Income before and after Donations, Grants and Legacies to Exploration, between 2010 and 2016.....    | 32 |
| Appendix 2. The Rebranding process of REKLUSA: changes in Brand Elements. ....   | 33 |
| Appendix 3. Spring Summer Collection 2017 Models.....  | 35 |
| Appendix 4. Production Costs structure of the Spring Summer Collection 2017. ....  | 38 |
| Appendix 5. Selling Prices (SP) of the Spring Summer Collection 2017. ....   | 39 |
| Appendix 6. Resale Price and Margins of the Spring Summer Collection 2017.....   | 40 |
| Appendix 7. Consignment Price and Margins of the Spring Summer Collection 2017.....  | 41 |
| Appendix 8. Relation between the Margins RECLUSA obtained through Resale, Consignment and by selling at the Selling Price..... | 42 |
| Appendix 9. Spring Summer Collection 2017 (SSC17) Sales Volume and Sales Value, by Point of Sale. ....                         | 43 |
| Appendix 10. Relation between the percentage of Items Sold and Value of Items Sold in the SSC17, by Point of Sale.....         | 44 |
| Appendix 11. Spring Summer Collection 2017 Sales in Owned Store, Consignment, Resale and Markets/Fairs.....                    | 45 |
| Appendix 12. Spring Summer Collection 2017 Sales made in RECLUSA's Store, discounts specified. ....                            | 47 |
| Appendix 13. Spring Summer Collection 2017 Sales Value and Volume, by Model.....   | 41 |




|  |    |
|--|----|
| Appendix 14. Cost of Goods Sold of the Spring Summer Collection 2017. ....   | 50 |
| Appendix 15. Income Statement of RECLUSA 2017 (until September) .....  | 51 |
| Appendix 15. Income Statement of RECLUSA 2017 (until September) (cont.).....   | 52 |
| Appendix 16. Selling Price needed to achieve a 60% gross margin for each model of the Spring<br>Summer Collection 2017.. ....                  | 53 |
| Appendix 17. Difference between Spring Summer Collection 2017 Selling Prices and the Price<br>needed to achieve 60% Margin in each model. .... | 54 |
| Appendix 18. Final Production Costs needed to achieve a 60% gross margin, with the SPs used<br>in the Spring Summer Collection 2017.....       | 55 |



**Appendix 1. REKLUSA's Net Income before and after Donations, Grants and Legacies to Exploration, between 2010 and 2016.**

| Year | Grants, Donations e Legacies to Exploration | Donations  | Net Income without Donations, Grants, LE | Net Income including Donations, Grants, LE |
|------|---|------------|--|--|
| 2010 | €-  | €-         | €16 368,80                               | €16 368,80                                 |
| 2011 | €12 976,80                                  | €12 976,80 | €7 703,63                                | €20 680,43                                 |
| 2012 | €-  | €-         | -€28 509,87                              | -€28 509,87                                |
| 2013 | €23 643,19                                  | €23 240,73 | -€4 521,52                               | €19 121,67                                 |
| 2014 | €17 592,62                                  | €15 102,44 | -€15 101,46                              | €2 491,16                                  |
| 2015 | €32 418,04                                  | €26 473,50 | -€32 058,83                              | €359,21                                    |
| 2016 | €35 166,39                                  | €29 455,06 | -€26 529,44                              | €8 636,95                                  |



## Appendix 2. The Rebranding process of REKLUSA: changes in Brand Elements.







|          | Before Rebranding   | After Rebranding   |
|----------|---|--|
| Products | <p>Products were manufactured with donated materials, using random combinations of patterns and a large number of colours in the same model. The products were designed by a different person every year.</p>    | <p>Bags and accessories are made with 100% natural leather or/and other quality products. The combination of patterns, leather, textiles and colours is carefully chosen. The entire collection is now created by the new designer of the brand.</p>   |
| Logo     | <p>The logo of REKLUSA was changed twice before 2016. Before the restructuring process, the image of the brand was a logo meant to be associated to a social charity cause: the first one with a dove representing Hope and the second one an “R”, from REKLUSA, similar to a loop.</p>   | <p>The rebranding was conceived by the communication agency <i>PARTNERS</i>. It started by changing the name from REKLUSA to RECLUSA, a more traditional, authentic and national name. The logo changed to a more commercial and professional one, in which inmates and their work is honoured: a square that represents the cell, which is crossed by a new path (a white line that represents the project) that reflects a new opportunity. Inside the cell are the letters that represent the key characters of the story of the brand – former and current female inmates.</p>  |

|               |   |   |
|---------------|---|---|
| Store         | <p>The store reflected the charity environment surrounding the brand, with shelves and stands made of crates and pallets (once again, the concept of reusing materials). The funds for the first transformation of the store were generated through a project of crowdfunding<sup>11</sup>.</p>  | <p>The store was totally remodelled in order to reflect the new identity and positioning of the brand. The decoration and the way products are displayed is simple and sophisticated. The new store intends to have a pleasant atmosphere to provide an excellent consumer experience.</p>  |
| Website       | <p>REKLUSA's first website was totally focused on the social cause of the brand and in the Association itself. The objective was to lead consumers into buying the products out of a desire to help a social cause, and not for the product itself.</p>   | <p>The website of REKLUSA (currently still under construction) will focus on Fashion aspect of the brand (the bags and accessories), not being the social mission the main visual point.</p>  |
| Communication | <p>REKLUSA was normally communicated as a solidarity project that sold fashion products (in order to generate some funds to help support the social cause of the brand). In this case, bags and accessories had a secondary role.</p>   | <p>REKLUSA is conveyed as a Fashion Brand with a different story, in which the brand and its products are primarily communicated to consumers, and the social cause is what comes attached to it. People feel good that they are contributing to a cause by buying something for themselves, but that is not their main motivation to buy.</p>                                |

<sup>11</sup> <https://novobancocrowdfunding.ppl.pt/newsletters/3/reklusa>

### Appendix 3. Spring Summer Collection 2017 models.

| Model                              | Model's Image   | Cost of goods sold | Selling Price (w/ VAT) | Profit Margin |
|------------------------------------|---|--------------------|------------------------|---------------|
| Made at the Emílio Godinho Factory |   |                    |                        |               |
| Aztec                              |    | 45,79€             | 135€                   | 58.3%         |
| Bandolera Camel                    |    | 36,13€             | 95€                    | 53.2%         |
| Bandolera Citron / Fuschia         |   | 36,53€             | 95€                    | 52.7%         |
| Bucket Bag                         |  | 57,97€             | 159€                   | 55.2%         |
| Clutch Textile                     |  | 28,04€             | 85€                    | 59.4%         |
| Mini Bucket Bag                    |  | 47,23€             | 129€                   | 55.0%         |
| Mini Shopper Bag                   |  | 41,48€             | 115€                   | 55.6%         |

|   |   |        |      |       |
|---|---|--------|------|-------|
| Weekend Bag                                       |    | 91,49€ | 245€ | 54.1% |
| Shopper Bag Black<br><i>(previous collection)</i> |    | 50,35€ | 160€ | 61.3% |
| Shopper Bag<br><i>(previous collection)</i>       |   | 52,03€ | 160€ | 60.0% |
| Made at Tires Prison                              |   |        |      |       |
| Beach Bag   |  | 21,79€ | 65€  | 58.8% |
| Fringe Clutch                                     |  | 27,88€ | 95€  | 63.9% |
| Fringe Key Chain                                  |  | 5,78€  | 22€  | 67.8% |

|                                |   |        |       |       |
|--------------------------------|---|--------|-------|-------|
| Leather Clutch                 |    | 20,81€ | 70€   | 63.4% |
| Necessaire                     |    | 19,72€ | 48€   | 49.5% |
| Triangle                       |    | 5,71€  | 16,5€ | 57.4% |
| Wallet Mocho / Vaca            |    | 10,08€ | 25€   | 50.4% |
| Zipper XL                      |  | 12,24€ | 35€   | 57.0% |
| Zipper XS                      |  | 6,78€  | 19,5€ | 57.3% |
| Made at the Os Amantes Factory |   |        |       |       |
| Porta Moedas (Coin Holder)     |  | 29,87€ | 85€   | 56.8% |



**Appendix 4. Production Costs structure of the Spring Summer Collection 2017.**

| <b>Models</b>               | <b>Raw Materials</b> | <b>Labor</b> | <b>Packaging</b> | <b>Total Cost</b> | <b>Waste</b> | <b>Total Cost per Model</b> |
|-----------------------------|----------------------|--------------|------------------|-------------------|--------------|-----------------------------|
| Aztec                       | €19,96               | €22,00       | €1,65            | €43,61            | €2,18        | €45,79                      |
| Bandolera (Camel)           | €10,78               | €22,00       | €1,63            | €34,41            | €1,72        | €36,13                      |
| Bandolera (Citron/ Fuschia) | €9,85                | €22,00       | €1,63            | €33,48            | €1,74        | €35,22                      |
| Beach Bag                   | €10,50               | €8,00        | €2,25            | €20,75            | €1,04        | €21,79                      |
| Bucket Bag                  | €23,58               | €30,00       | €1,63            | €55,21            | €2,76        | €57,97                      |
| Clutch Textile              | €3,20                | €22,00       | €1,50            | €26,70            | €1,34        | €28,04                      |
| Fringe Clutch               | €11,93               | €13,00       | €1,63            | €26,55            | €1,33        | €27,88                      |
| Fringe Key Chain            | €1,07                | €3,00        | €1,44            | €5,50             | €0,28        | €5,78                       |
| Leather Clutch              | €8,82                | €9,50        | €1,50            | €19,82            | €0,99        | €20,81                      |
| Mini Bucket Bag             | €18,36               | €25,00       | €1,63            | €44,99            | €2,25        | €47,23                      |
| Mini Shopper Bag            | €15,25               | €22,00       | €2,25            | €39,50            | €1,98        | €41,48                      |
| Necessaire                  | €4,15                | €13,00       | €1,63            | €18,78            | €0,94        | €19,72                      |
| Porta Moedas (Coin Holder)  | €7,82                | €19,00       | €1,63            | €28,45            | €1,42        | €29,87                      |
| Shopper Bag Black           | €23,70               | €22,00       | €2,25            | €47,95            | €2,40        | €50,35                      |
| Shopper Bag                 | €25,30               | €22,00       | €2,25            | €49,55            | €2,48        | €52,03                      |
| Triangle                    | €2,75                | €1,25        | €1,44            | €5,44             | €0,27        | €5,71                       |
| Wallet Mocho / Vaca         | €6,04                | €2,13        | €1,44            | €9,60             | €0,48        | €10,08                      |
| Wallet Chita / Zebra        | €2,69                | €2,13        | €1,44            | €6,26             | €0,48        | €6,74                       |
| Weekend Bag                 | €52,88               | €32,00       | €2,25            | €87,13            | €4,36        | €91,49                      |
| Zipper XL                   | €5,22                | €5,00        | €1,44            | €11,66            | €0,58        | €12,24                      |
| Zipper XS                   | €1,96                | €3,00        | €1,50            | €6,46             | €0,32        | €6,78                       |

**Appendix 5. Selling Prices (SP) of the Spring Summer Collection 2017.**

| Model                       | Cost per Model | Mark-Up - 2.4 |           | w/ VAT   | No VAT   | Gross Margin | Gross Margin % |
|-----------------------------|----------------|---------------|-----------|----------|----------|--------------|----------------|
|                             |                | SP No VAT     | SP w/ VAT | Final SP | Final SP |              |                |
| Aztec                       | €45,79         | €109,90       | €135,18   | €135,0   | €109,76  | €63,97       | 58.3%          |
| Bandolera (Camel)           | €36,13         | €86,71        | €106,66   | €95,0    | €77,24   | €41,11       | 53.2%          |
| Bandolera (Citron/ Fuschia) | €36,53         | €87,67        | €107,84   | €95,0    | €77,24   | €40,71       | 52.7%          |
| Beach Bag                   | €21,79         | €52,29        | €64,32    | €65,0    | €52,85   | €31,06       | 58.8%          |
| Bucket Bag                  | €57,97         | €139,12       | €171,11   | €159,0   | €129,27  | €71,30       | 55.2%          |
| Clutch Textile              | €28,04         | €67,28        | €82,76    | €85,0    | €69,11   | €41,07       | 59.4%          |
| Fringe Clutch               | €27,88         | €66,91        | €82,30    | €95,0    | €77,24   | €49,36       | 63.9%          |
| Fringe Key Chain            | €5,78          | €13,87        | €17,06    | €22,0    | €17,89   | €12,11       | 67.7%          |
| Leather Clutch              | €20,81         | €49,95        | €61,43    | €70,0    | €56,91   | €36,10       | 63.4%          |
| Mini Bucket Bag             | €47,23         | €113,36       | €139,43   | €129,0   | €104,88  | €57,64       | 55.0%          |
| Mini Shopper Bag            | €41,48         | €99,54        | €122,43   | €115,0   | €93,50   | €52,02       | 55.6%          |
| Necessaire                  | €19,72         | €47,32        | €58,20    | €48,0    | €39,02   | €19,31       | 49.5%          |
| Porta Moedas (Coin Holder)  | €29,87         | €71,68        | €88,17    | €85,0    | €69,11   | €39,24       | 56.8%          |
| Shopper Bag Black           | €50,35         | €120,84       | €148,63   | €160,0   | €130,08  | €79,73       | 61.3%          |
| Shopper Bag                 | €52,03         | €124,87       | €153,59   | €160,0   | €130,08  | €78,05       | 60.0%          |
| Triangle                    | €5,71          | €13,70        | €16,85    | €16,5    | €13,41   | €7,71        | 57.4%          |
| Wallet Mocho / Vaca         | €10,08         | €24,18        | €29,75    | €25,0    | €20,33   | €10,25       | 50.4%          |
| Wallet Chita / Zebra        | €6,74          | €16,18        | €19,90    | €22,5    | €18,29   | €11,55       | 63.2%          |
| Weekend Bag                 | €91,49         | €219,57       | €270,08   | €245,0   | €199,19  | €107,70      | 54.1%          |
| Zipper XL                   | €12,24         | €29,38        | €36,13    | €35,0    | €28,46   | €16,22       | 57.0%          |
| Zipper XS                   | €6,78          | €16,27        | €20,01    | €19,5    | €15,85   | €9,08        | 57.2%          |

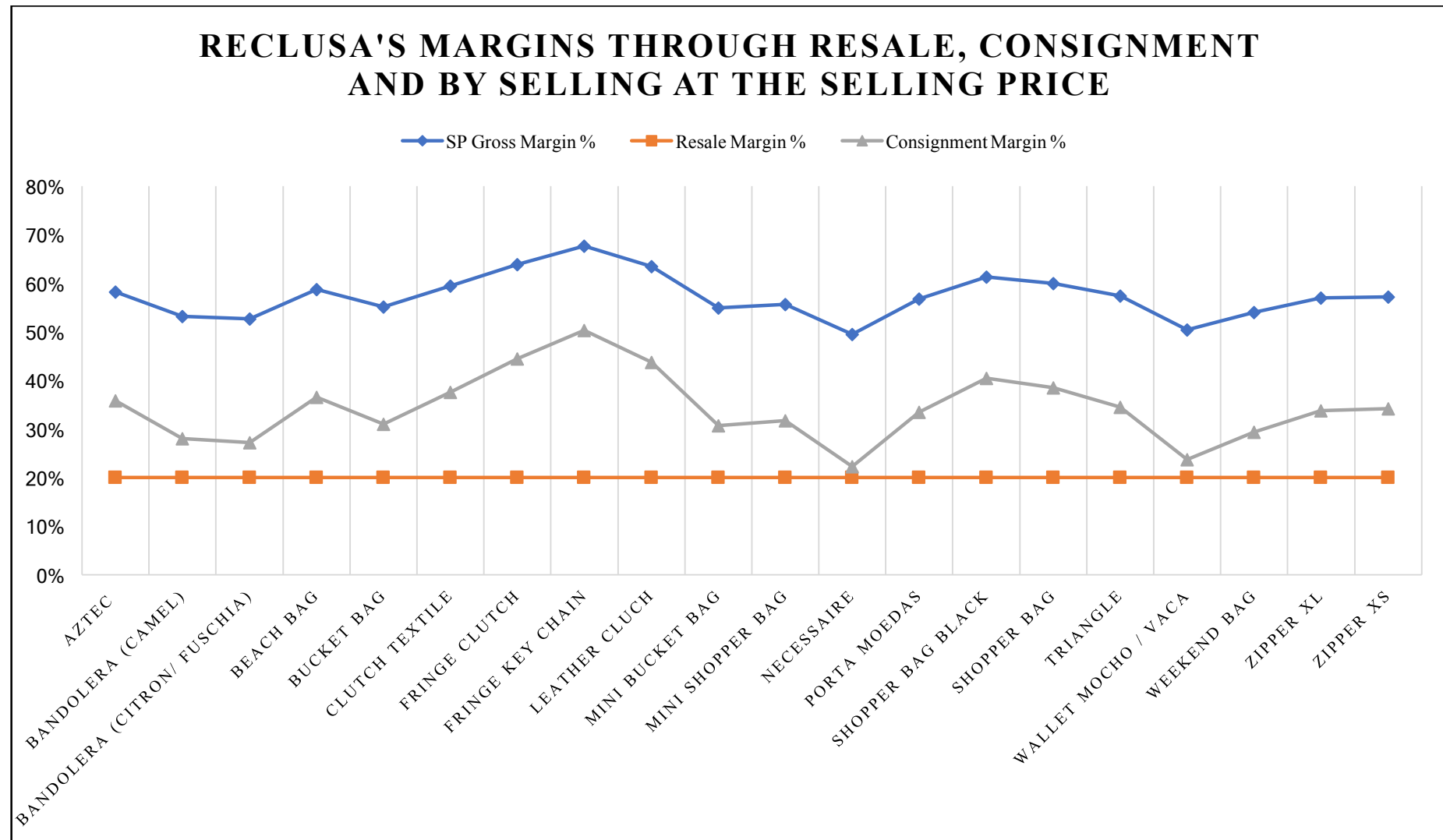
## Appendix 6. Resale Price and Margins of the Spring Summer Collection 2017.

| No VAT M.U. - 1.25          |                |          |              |                    |                      |               |                 |
|-----------------------------|----------------|----------|--------------|--------------------|----------------------|---------------|-----------------|
| Model                       | Cost per Model | Final SP | Resale Price | Margin for RECLUSA | Margin for RECLUSA % | Seller Margin | Seller Margin % |
| Aztec                       | €45,79         | €109,76  | €57,24       | €11,45             | 20%                  | €52,52        | 48%             |
| Bandolera (Camel)           | €36,13         | €77,24   | €45,16       | €9,03              |                      | €32,07        | 42%             |
| Bandolera (Citron/ Fuschia) | €36,53         | €77,24   | €45,66       | €9,13              |                      | €31,57        | 41%             |
| Beach Bag                   | €21,79         | €52,85   | €27,24       | €5,45              |                      | €25,61        | 48%             |
| Bucket Bag                  | €57,97         | €129,27  | €72,46       | €14,49             |                      | €56,81        | 44%             |
| Clutch Textile              | €28,04         | €69,11   | €35,04       | €7,01              |                      | €34,06        | 49%             |
| Fringe Clutch               | €27,88         | €77,24   | €34,85       | €6,97              |                      | €42,39        | 55%             |
| Fringe Key Chain            | €5,78          | €17,89   | €7,23        | €1,45              |                      | €10,66        | 60%             |
| Leather Clutch              | €20,81         | €56,91   | €26,01       | €5,20              |                      | €30,90        | 54%             |
| Mini Bucket Bag             | €47,23         | €104,88  | €59,04       | €11,81             |                      | €45,84        | 44%             |
| Mini Shopper Bag            | €41,48         | €93,50   | €51,84       | €10,37             |                      | €41,65        | 45%             |
| Necessaire                  | €19,72         | €39,02   | €24,65       | €4,93              |                      | €14,38        | 37%             |
| Porta Moedas (Coin Holder)  | €29,87         | €69,11   | €37,33       | €7,47              |                      | €31,77        | 46%             |
| Shopper Bag Black           | €50,35         | €130,08  | €62,94       | €12,59             |                      | €67,15        | 52%             |
| Shopper Bag                 | €52,03         | €130,08  | €65,04       | €13,01             |                      | €65,05        | 50%             |
| Triangle                    | €5,71          | €13,41   | €7,14        | €1,43              |                      | €6,28         | 47%             |
| Wallet Mocho                | €10,08         | €20,33   | €12,60       | €2,52              |                      | €7,73         | 38%             |
| Wallet Chita / Zebra        | €6,74          | €18,29   | €8,43        | €1,69              |                      | €9,87         | 54%             |
| Weekend Bag                 | €91,49         | €199,19  | €114,36      | €22,87             |                      | €84,83        | 43%             |
| Zipper XL                   | €12,24         | €28,46   | €15,30       | €3,06              |                      | €13,16        | 46%             |
| Zipper XS                   | €6,78          | €15,85   | €8,47        | €1,69              |                      | €7,38         | 47%             |

## Appendix 7. Consignment Price and Margins of the Spring Summer Collection 2017.

| No VAT                      |                |          |                   |                    |                      |               |                 |
|-----------------------------|----------------|----------|-------------------|--------------------|----------------------|---------------|-----------------|
| Model                       | Cost per Model | Final SP | Consignment Price | Margin for RECLUSA | Margin for RECLUSA % | Seller Margin | Seller Margin % |
| Aztec                       | €45,79         | €109,76  | €71,34            | €25,55             | 35.8%                | €38,41        | 35%             |
| Bandolera (Camel)           | €36,13         | €77,24   | €50,20            | €14,07             | 28.0%                | €27,03        |                 |
| Bandolera (Citron/ Fuschia) | €36,53         | €77,24   | €50,20            | €13,67             | 27.2%                | €27,03        |                 |
| Beach Bag                   | €21,79         | €52,85   | €34,35            | €12,56             | 36.6%                | €18,50        |                 |
| Bucket Bag                  | €57,97         | €129,27  | €84,02            | €26,06             | 31.0%                | €45,24        |                 |
| Clutch Textile              | €28,04         | €69,11   | €44,92            | €16,88             | 37.6%                | €24,19        |                 |
| Fringe Clutch               | €27,88         | €77,24   | €50,20            | €22,33             | 44.5%                | €27,03        |                 |
| Fringe Key Chain            | €5,78          | €17,89   | €11,63            | €5,85              | 50.3%                | €6,26         |                 |
| Leather Clutch              | €20,81         | €56,91   | €36,99            | €16,18             | 43.7%                | €19,92        |                 |
| Mini Bucket Bag             | €47,23         | €104,88  | €68,17            | €20,94             | 30.7%                | €36,71        |                 |
| Mini Shopper Bag            | €41,48         | €93,50   | €60,77            | €19,30             | 31.8%                | €32,72        |                 |
| Necessaire                  | €19,72         | €39,02   | €25,37            | €5,65              | 22.3%                | €13,66        |                 |
| Porta Moedas (Coin Holder)  | €29,87         | €69,11   | €44,92            | €15,05             | 33.5%                | €24,19        |                 |
| Shopper Bag Black           | €50,35         | €130,08  | €84,55            | €34,20             | 40.5%                | €45,53        |                 |
| Shopper Bag                 | €52,03         | €130,08  | €84,55            | €32,52             | 38.5%                | €45,53        |                 |
| Triangle                    | €5,71          | €13,41   | €8,72             | €3,01              | 34.5%                | €4,70         |                 |
| Wallet Mocho / Vaca         | €10,08         | €20,33   | €13,21            | €3,13              | 23.7%                | €7,11         |                 |
| Wallet Chita / Zebra        | €6,74          | €18,29   | €11,89            | €5,15              | 43.3%                | €6,40         |                 |
| Weekend Bag                 | €91,49         | €199,19  | €129,47           | €37,98             | 29.3%                | €69,72        |                 |
| Zipper XL                   | €12,24         | €28,46   | €18,50            | €6,26              | 33.8%                | €9,96         |                 |
| Zipper XS                   | €6,78          | €15,85   | €10,30            | €3,53              | 34.2%                | €5,55         |                 |

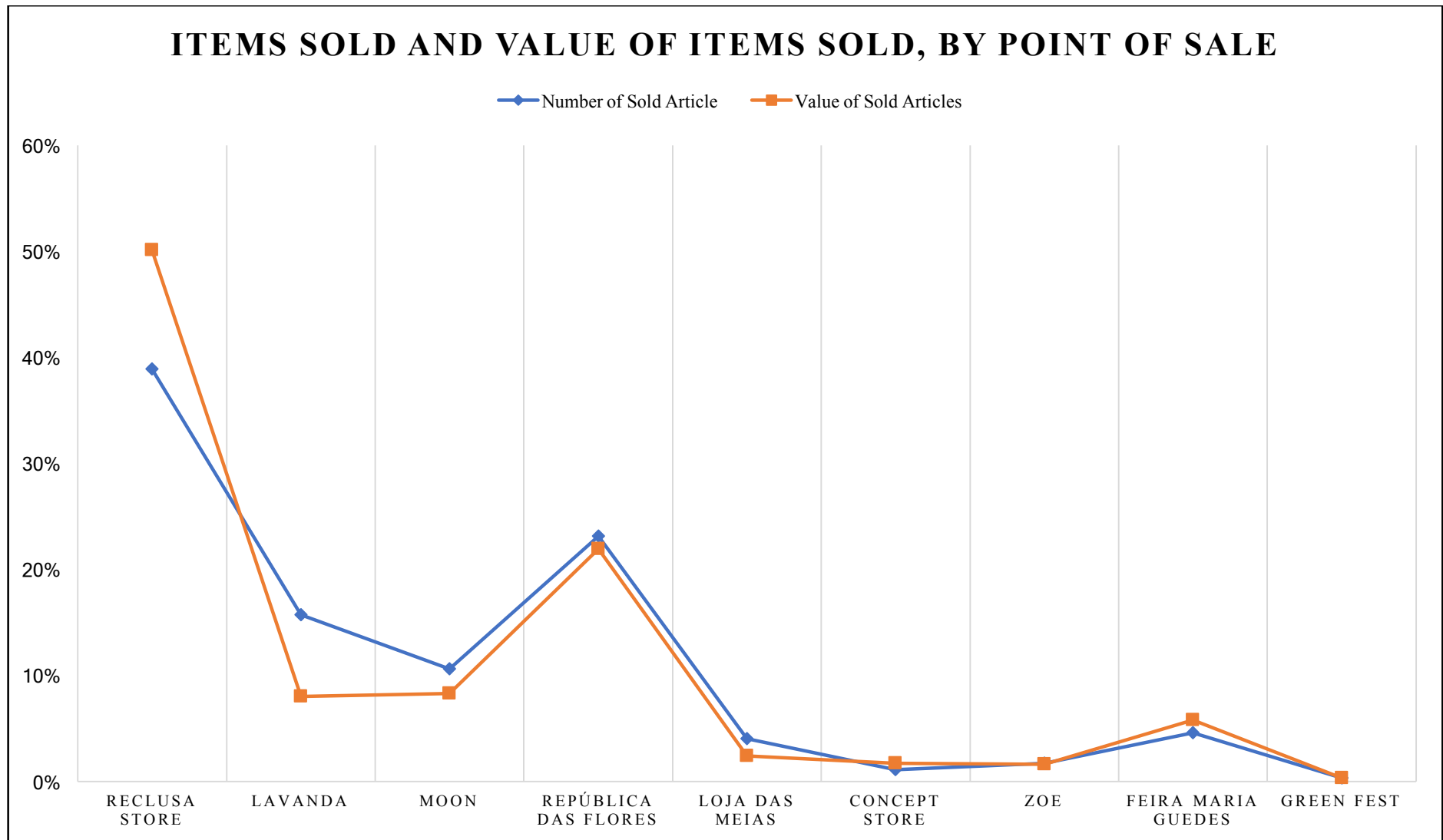
**Appendix 8. Relation between the Margins RECLUSA obtained through Resale, Consignment and by selling at the Selling Price.**



**Appendix 9. Spring Summer Collection 2017 (SSC17) Sales Volume and Sales Value, by Point of Sale.**

| Point of Sale        | Volume Sold | Volume Sold % | Sales Model Total | Sales Model Total % | Value of Items Sold | Value of Items Sold % | Sales Model Value | Sales Model Value % |
|----------------------|-------------|---------------|-------------------|---------------------|---------------------|-----------------------|-------------------|---------------------|
| OWNED STORE          |             |               |                   |                     |                     |                       |                   |                     |
| RECLUSA’s Store      | 140         | 39.5%         | 140               | 39.5%               | €7 992,29           | 51.1%                 | €7 992,29         | 51.1%               |
| RESALE               |             |               |                   |                     |                     |                       |                   |                     |
| Lavanda              | 55          | 15.5%         | 92                | 26.0%               | €1 219,87           | 7.8%                  | € 2 496,13        | 16.0%               |
| Moon                 | 37          | 10.5%         |                   |                     | €1 276,26           | 8.2%                  |                   |                     |
| CONSIGNMENT          |             |               |                   |                     |                     |                       |                   |                     |
| República das Flores | 81          | 22.9%         | 105               | 29.7%               | €3 348,47           | 21.4%                 | € 4 212,20        | 27.0%               |
| Loja das Meias       | 14          | 4.0%          |                   |                     | €362,76             | 2.3%                  |                   |                     |
| Concept Store        | 4           | 1.1%          |                   |                     | €252,59             | 1.6%                  |                   |                     |
| Zoe                  | 6           | 1.7%          |                   |                     | €248,38             | 1.6%                  |                   |                     |
| MARKETS / FAIRS      |             |               |                   |                     |                     |                       |                   |                     |
| Feira Maria Guedes   | 16          | 4.5%          | 17                | 4.8%                | €883,72             | 5.7%                  | € 925,18          | 5.9%                |
| Green Fest           | 1           | 0.3%          |                   |                     | €41,46              | 0.3%                  |                   |                     |
| TOTAL                | 354         |               |                   |                     | €15 625,80          |                       |                   |                     |

**Appendix 10. Relation between the percentage of Items Sold and Value of Items Sold in the SSC17, by Point of Sale.**



**Appendix 11. Spring Summer Collection 2017 Sales in Owned Store, Consignment, Resale and Markets/Fairs.**

| Model                             | Store SP | Reclusa Store | <u>Total Value</u> | Resale Price | Resale Sales | <u>Total Value</u> | Consig. Price | Consig Sales | <u>Total Value</u> | Market/ Fair | <u>Total Value</u> |
|-----------------------------------|----------|---------------|--------------------|--------------|--------------|--------------------|---------------|--------------|--------------------|--------------|--------------------|
| Aztec                             | €109,76  | 4             | €439,04            | €57,24       | 1            | €57,24             | €71,34        | 2            | €142,68            | 0            | 0                  |
| Bandolera Zavial Camel            | €77,24   | 2             | €154,48            | €45,16       | 1            | €45,16             | €50,20        | 3            | €150,60            | 1            | €77,24             |
| Bandolera Zavial Citron / Fuschia | €77,24   | 7             | €540,68            | €45,66       | 2            | €91,32             | €50,20        | 2            | €100,40            | 0            | €-                 |
| Beach Bag                         | €52,85   | 10            | €528,50            | €27,24       | 0            | €-                 | €34,35        | 0            | €-                 | 1            | €52,85             |
| Bucket Bag                        | €129,27  | 7             | €904,89            | €72,46       | 4            | €289,84            | €84,02        | 6            | €504,12            | 0            | €-                 |
| Clutch Textile                    | €69,11   | 12            | €829,32            | €35,04       | 10           | €350,40            | €44,92        | 3            | €134,76            | 2            | €138,22            |
| Fringe Clutch                     | €77,24   | 12            | €926,88            | €34,85       | 5            | €174,25            | €50,20        | 5            | €251,00            | 3            | €231,72            |
| Fringe Key Chain                  | €17,89   | 6             | €107,34            | €7,23        | 0            | €-                 | €11,63        | 0            | €-                 | 0            | €-                 |
| Leather Clutch                    | €56,91   | 1             | €56,91             | €26,01       | 1            | €26,01             | €36,99        | 0            | €-                 | 0            | €-                 |
| Mini Bucket Bag                   | €104,88  | 9             | €943,92            | €59,04       | 3            | €177,12            | €68,17        | 9            | €613,53            | 1            | €104,88            |
| Mini Shopper Bag                  | €93,50   | 7             | €654,50            | €51,84       | 0            | €-                 | €60,77        | 2            | €121,54            | 1            | €93,50             |
| Necessaire                        | €39,02   | 6             | €234,12            | €24,65       | 2            | €49,30             | €25,37        | 1            | €25,37             | 0            | €-                 |
| Porta Moedas (Coin Holder)        | €69,11   | 9             | €621,99            | €37,33       | 10           | €373,30            | €44,92        | 11           | €494,12            | 2            | €110,57            |
| Shopper Bag Black                 | €130,08  | 0             | €-                 | €62,94       | 0            | €-                 | €84,55        | 2            | €169,10            | 0            | €-                 |
| Shopper Bag Camel                 | €130,08  | 5             | €650,40            | €65,04       | 2            | €130,08            | €84,55        | 4            | €338,20            | 0            | €-                 |
| Triangle                          | €13,41   | 8             | €107,28            | €7,14        | 10           | €71,40             | €8,72         | 9            | €78,48             | 0            | €-                 |
| Wallet Mocho                      | €20,33   | 9             | €182,97            | €12,60       | 6            | €75,60             | €13,21        | 4            | €52,84             | 1            | €15,38             |
| Wallet Vaca                       | €20,33   | 1             | €20,33             | €12,60       | 0            | €-                 | €13,21        | 10           | €132,10            | 2            | €40,66             |



|                      |           |                           |         |         |          |         |         |          |         |         |        |
|----------------------|-----------|---------------------------|---------|---------|----------|---------|---------|----------|---------|---------|--------|
| Wallet Chita         | €20,33    | 0                         | €-      | €12,60  | 6        | €75,60  | €13,21  | 4        | €52,84  | 0       | €-     |
| Wallet Zebra         | €20,33    | 0                         | €-      | €12,60  | 6        | €75,60  | €13,21  | 4        | €52,84  | 0       | €-     |
| Weekend Bag          | €199,19   | 3                         | €597,57 | €114,36 | 2        | €228,72 | €129,47 | 4        | €517,88 | 0       | €-     |
| Zipper XL            | €28,46    | 11                        | €313,06 | €15,30  | 4        | €61,20  | €18,50  | 9        | €166,50 | 1       | €28,46 |
| Zipper XS            | €15,85    | 11                        | €174,35 | €8,47   | 17       | €143,99 | €10,30  | 11       | €113,30 | 2       | €31,70 |
| Total Sales          |           | 140                       |         |         | 92       |         |         | 105      |         | 17      |        |
| %                    |           | 40%                       |         |         | 26%      |         |         | 30%      |         | 5%      |        |
| Sales Value          |           | 8988,53€                  |         |         | 2496,13€ |         |         | 4212,20€ |         | 925,18€ |        |
|                      |           | w/ discounts:<br>7992,29€ |         |         |          |         |         |          |         |         |        |
|                      |           | 51%                       |         |         | 16%      |         |         | 27%      |         | 6%      |        |
| Total Value no VAT   | 15625,80€ |                           |         |         |          |         |         |          |         |         |        |
| Total Value with VAT | 19219,73€ |                           |         |         |          |         |         |          |         |         |        |

**Appendix 12. Spring Summer Collection 2017 Sales made in RECLUSA's Store, discounts specified.**

| Model                      | RECLUSA's Store | No discount | <u>Specific Discounts</u> |     |     |     |        |     |     |     | Value to discount |
|----------------------------|-----------------|-------------|---------------------------|-----|-----|-----|--------|-----|-----|-----|-------------------|
|                            |                 |             | 12%                       | 20% | 25% | 30% | 34.98% | 40% | 45% | 60% |                   |
| Aztec                      | 4               | 3           | -                         | -   | -   | 1   | -      | -   | -   | -   | €40,50            |
| Bandolera Camel            | 2               | 2           | -                         | -   | -   | -   | -      | -   | -   | -   | €-                |
| Bandolera Citron & Fuschia | 7               | 5           | -                         | -   | -   | 1   | -      | 1   | -   | -   | €66,50            |
| Beach Bag                  | 10              | 5           | -                         | 1   | 3   | 1   | -      | -   | -   | -   | €81,25            |
| Bucket Bag                 | 7               | -           | -                         | -   | 1   | 6   | -      | -   | -   | -   | €325,95           |
| Clutch Textile             | 12              | 7           | -                         | 1   | -   | 4   | -      | -   | -   | -   | €119,00           |
| Fringe Clutch              | 12              | 8           | -                         | 3   | -   | -   | -      | 1   | -   | -   | €95,00            |
| Fringe Key Chain           | 6               | 3           | -                         | 1   | -   | -   | -      | -   | 2   | -   | €24,20            |
| Leather Clutch             | 1               | -           | -                         | -   | -   | -   | -      | 1   | -   | -   | €28,00            |
| Mini Bucket Bag            | 9               | 5           | -                         | -   | 1   | 3   | -      | -   | -   | -   | €148,35           |
| Mini Shopper Bag           | 7               | 7           | -                         | -   | -   | -   | -      | -   | -   | -   | €-                |
| Necessaire                 | 6               | 5           | -                         | -   | -   | -   | -      | 1   | -   | -   | €19,20            |
| Porta Moedas (Coin Holder) | 9               | 6           | -                         | 1   | -   | 1   | -      | -   | -   | 1   | €93,50            |
| Shopper Bag Black          | 0               | -           | -                         | -   | -   | -   | -      | -   | -   | -   | €-                |
| Shopper Bag Camel          | 5               | 5           | -                         | -   | -   | -   | -      | -   | -   | -   | €-                |
| Triangle                   | 8               | 3           | 1                         | 4   | -   | -   | -      | -   | -   | -   | €15,18            |
| Wallet Mocho               | 9               | 3           | -                         | 5   | -   | -   | 1      | -   | -   | -   | €33,75            |
| Wallet Vaca                | 1               | -           | -                         | 1   | -   | -   | -      | -   | -   | -   | €5,00             |

|             |      |       |   |    |   |    |   |   |   |   |          |
|-------------|------|-------|---|----|---|----|---|---|---|---|----------|
| Weekend Bag | 3    | 2     | -   | -  | - | -  | - | 1 | - | - | €98,00   |
| Zipper XL   | 11   | 10    | -   | -  | - | 1  | - | - | - | - | €10,50   |
| Zipper XS   | 11   | 7     | -   | 1  | - | 3  | - | - | - | - | €21,45   |
| TOTAL       | 140  | 86    | 1   | 18 | 5 | 21 | 1 | 5 | 2 | 1 | TOTAL    |
| %           | 100% | 61,4% | 38,6%   |    |   |    |   |   |   |   | €1225,33 |
|             |      |       | Discounts (no VAT)                                |    |   |    |   |   |   |   | €996,24  |
|             |      |       | RECLUSA's Store Revenue before discounts (no VAT) |    |   |    |   |   |   |   | €8988,53 |
|             |      |       | RECLUSA's Store Revenue after discounts (no VAT)  |    |   |    |   |   |   |   | €7992,29 |

**Appendix 13. Spring Summer Collection 2017 Sales Value and Sales Volume, by Model.**

| <b>MODEL</b>               | <b>N° of Sales</b> | <b>% of sales</b> | <b>€ Sales</b>    | <b>% € Sales</b> |
|----------------------------|--------------------|-------------------|-------------------|------------------|
| Aztec                      | 7                  | 2.0%              | €606,03           | 3.9%             |
| Bandolera Camel            | 7                  | 2.0%              | €427,48           | 2.7%             |
| Bandolera Citron e Fuschia | 11                 | 3.1%              | €678,29           | 4.3%             |
| Beach Bag                  | 11                 | 3.1%              | €515,29           | 3.3%             |
| Bucket Bag                 | 17                 | 4.9%              | €1 433,85         | 9.2%             |
| Clutch Textile             | 27                 | 7.7%              | €1 355,95         | 8.7%             |
| Fringe Clutch              | 25                 | 6.9%              | €1 506,62         | 9.6%             |
| Fringe Key Chain           | 6                  | 1.4%              | €87,67            | 0.6%             |
| Leather Clutch             | 2                  | 0.6%              | €60,16            | 0.4%             |
| Mini Bucket Bag            | 22                 | 6.3%              | €1 718,84         | 11.0%            |
| Mini Shopper Bag           | 10                 | 2.9%              | €869,54           | 5.6%             |
| Necessaire                 | 9                  | 2.6%              | €293,18           | 1.9%             |
| Porta Moedas (Coin Holder) | 32                 | 9.1%              | €1 523,96         | 9.8%             |
| Shopper Bag Black          | 2                  | 0.6%              | €169,10           | 1.1%             |
| Shopper Bag Camel          | 11                 | 3.1%              | €1 118,68         | 7.2%             |
| Triangle                   | 27                 | 7.7%              | €244,83           | 1.6%             |
| Wallet Mocho e Vaca        | 33                 | 9.1%              | €488,37           | 3.1%             |
| Wallet Chita e Zebra       | 20                 | 5.7%              | €256,88           | 1.6%             |
| Weekend Bag                | 9                  | 2.6%              | €1 264,50         | 8.1%             |
| Zipper XL                  | 25                 | 6.9%              | €560,68           | 3.6%             |
| Zipper XS                  | 41                 | 11.7%             | €445,90           | 2.9%             |
| <b>TOTAL</b>               | <b>354</b>         | <b>100%</b>       | <b>€15 625,80</b> | <b>100%</b>      |

#### Appendix 14. Cost of Goods Sold of the Spring Summer Collection 2017.

| Model                       | Cost per model | Total Sales per article | Total Cost of Goods Sold |
|-----------------------------|----------------|-------------------------|--------------------------|
| Aztec                       | €45,79         | 7                       | €320,53                  |
| Bandolera (Camel)           | €36,13         | 7                       | €252,91                  |
| Bandolera (Citron/ Fuschia) | €35,22         | 11                      | €387,42                  |
| Beach Bag                   | €21,79         | 11                      | €239,69                  |
| Bucket Bag                  | €57,97         | 17                      | €985,49                  |
| Clutch Textile              | €28,04         | 27                      | €757,08                  |
| Fringe Clutch               | €27,89         | 25                      | €697,25                  |
| Fringe Key Chain            | €5,79          | 6                       | €34,74                   |
| Leather Clutch              | €20,81         | 2                       | €41,62                   |
| Mini Bucket Bag             | €47,24         | 22                      | €1 039,28                |
| Mini Shopper Bag            | €41,48         | 10                      | €414,80                  |
| Necessaire                  | €19,72         | 9                       | €177,48                  |
| Porta Moedas (Coin Holder)  | €29,87         | 32                      | €955,84                  |
| Shopper Bag Black           | €50,35         | 2                       | €100,70                  |
| Shopper Bag                 | €52,03         | 11                      | €572,33                  |
| Triangle                    | €5,71          | 27                      | €154,17                  |
| Wallet Mocho / Vaca         | €10,09         | 33                      | €332,97                  |
| Wallet Chita / Zebra        | €6,74          | 20                      | €134,80                  |
| Weekend Bag                 | €91,49         | 9                       | €823,41                  |
| Zipper XL                   | €12,24         | 25                      | €306,00                  |
| Zipper XS                   | €6,78          | 41                      | €277,98                  |
|                             | TOTAL          | 354                     | €9 005,10                |

**Appendix 15. Income Statement of RECLUSA in 2017 (until September).**

|   | January    | February   | March       | April       | May         | June        | July        | August     | September   | TOTAL<br>(Apr-Sep) |
|---|------------|------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|--------------------|
| <b>Quotas</b>                             |            |            | € 520,00    | € 80,00     | € 84,09     |             |             |            | € 3 004,09  | € 3 168,18         |
| <b>Donations</b>                          | € 250,00   | € 1 500,00 |             | € 11 697,78 | € 6 000,00  |             | € 200,00    | € 100,00   | € 100,00    | € 18 097,78        |
| <b>Sales</b>                              | € 1 239,99 | € 420,72   | € 546,74    | € 1 881,76  | € 5 170,92  | € 3 649,26  | € 1 751,05  | € 2 064,13 | € 1 394,57  | € 15 911,69        |
| <b>TOTAL REVENUES</b>                     | € 1 489,99 | € 1 920,72 | € 1 066,74  | € 13 659,54 | € 11 255,01 | € 3 649,26  | € 1 951,05  | € 2 164,13 | € 4 498,66  | € 37 177,65        |
| Subtotal CMVC FW16                        | € 1 243,94 | € 171,70   | € 1 519,87  |             |             | € 1 871,97  |             |            |             | € 1 871,97         |
| Subtotal CMVC SS17                        |            | € 22,70    |             | € 1 185,53  | € 698,02    | € 1 050,89  |             |            |             | € 2 934,44         |
| Leather / Fur                             |            |            |             | € 902,66    | € 474,02    | € 358,76    |             |            |             |                    |
| Fabrics                                   |            | € 22,70    |             | € 102,17    | € 47,54     |             |             |            |             |                    |
| Ferragens                                 |            |            |             | € 180,70    | € 176,46    | € 38,82     |             |            |             |                    |
| Packaging                                 |            |            |             |             |             | € 653,31    |             |            |             |                    |
| Subtotal CMVC FW17                        |            |            |             |             |             |             | € 141,86    | € 35,20    | € 766,41    | € 943,47           |
| CMVC TOTAL - Raw Materials                | € 1 243,94 | € 194,40   | € 1 519,87  | € 1 185,53  | € 698,02    | € 2 922,86  | € 141,86    | € 35,20    | € 766,41    | € 5 749,88         |
| Production Variation                      | € 307,56   | -€ 101,79  | -€ 2 527,35 | -€ 3 681,85 | € 742,53    | € 1 230,94  | -€ 1 829,09 | € 1 225,18 | -€ 1 967,26 | -€ 4 279,55        |
| Tools and Utensils                        | € 27,64    |            | € 3,30      | € 205,49    | € 148,70    |             | € 61,50     |            |             | € 415,69           |
| Subcontracts                              | € 307,13   | € 156,00   | € 1 753,25  | € 2 278,60  | € 906,30    | € 734,00    | € 627,52    |            | € 1 190,00  | € 5 736,42         |
| FW16                                      | € 307,13   | € 156,00   |             |             |             | € 457,00    |             |            |             |                    |
| SS17                                      |            |            | € 1 753,25  | € 2 278,60  | € 906,30    | € 277,00    |             |            |             |                    |
| FW17                                      |            |            |             |             |             |             | € 627,52    |            | € 1 190,00  |                    |
| <b>TOTAL COST OF SALES</b>                | € 1 886,27 | € 248,61   | € 749,07    | -€ 12,23    | € 2 495,55  | € 4 887,80  | -€ 998,21   | € 1 260,38 | -€ 10,85    | € 7 622,44         |
| <b>GROSS MARGIN</b>                       | -€ 396,28  | € 1 672,11 | € 317,67    | € 13 671,77 | € 8 759,46  | -€ 1 238,54 | € 2 949,26  | € 903,75   | € 4 509,51  | € 29 555,21        |
| <b>FSE</b>                                | € 652,23   | € 1 869,64 | € 1 340,12  | € 899,51    | € 3 576,37  | € 1 340,68  | € 2 616,27  | € 862,23   | € 695,16    | € 9 990,22         |
| Electricity / Water / Other Fluids        |            | € 214,71   | € 40,11     | € 139,91    | € 14,33     | € 167,19    | € 14,30     | € 53,36    | € 14,55     | € 403,64           |
| Exp. Representations, Deslocations, Stays |            |            | € 72,40     |             | € 26,20     |             | € 54,00     |            |             | € 80,20            |
| Rents and Leases                          | € 67,55    | € 67,55    | € 67,55     | € 67,55     | € 67,55     | € 67,60     | € 67,60     | € 67,60    | € 67,60     | € 405,50           |
| Fees (Honorários)                         | € 50,00    | € 500,00   | € 612,60    | € 842,00    | € 678,00    | € 704,00    | € 500,00    | € 304,00   |             | € 3 028,00         |
| Office Supplies                           | € 18,74    | € 74,36    | € 36,85     | € 248,54    | € 39,43     | € 5,19      | € 8,92      |            | € 8,29      | € 310,37           |
| Communications                            | € 206,03   | € 10,06    | € 39,21     | -€ 169,09   | € 59,99     | € 54,90     | € 160,22    | € 31,74    | € 37,04     | € 174,80           |
| Insurance                                 | € 5,68     | € 5,87     | € 5,87      | € 5,68      | € 5,87      | € 87,43     | € 5,87      | € 5,87     | € 5,68      | € 116,40           |
| Publicity                                 |            |            |             |             | € 1 112,20  |             |             |            |             | € 1 112,20         |

**Appendix 15. Income Statement of RECLUSA in 2017 (until September) (cont.)**

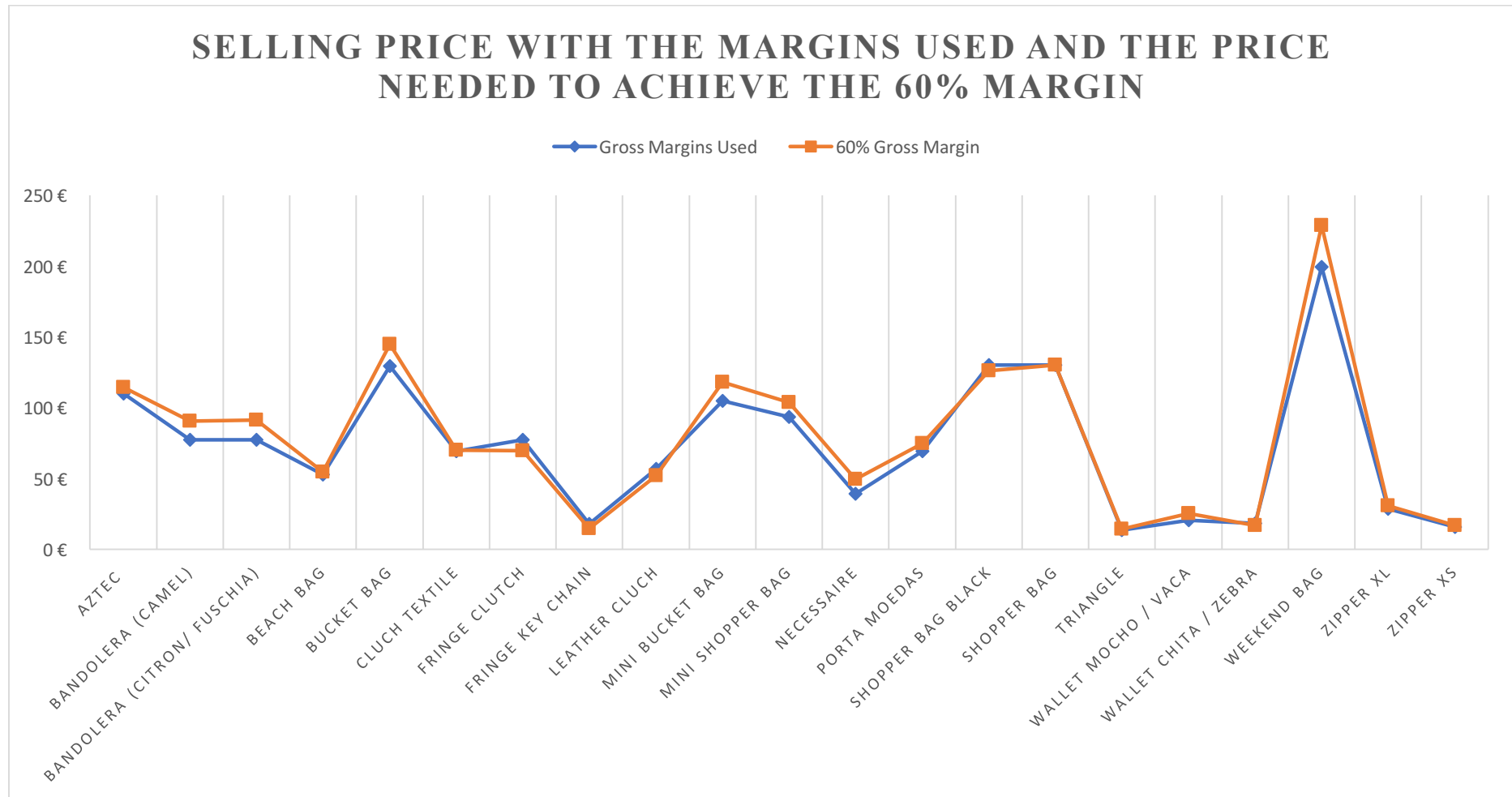
|  | January     | February    | March       | April       | May         | June        | July        | August      | September  | TOTAL<br>(Apr-Sep) |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|--------------------|
| Specialized Work                           | € 217,65    | € 222,35    | € 368,17    | -€ 473,05   | € 238,18    | € 36,95     | € 363,18    | € 238,18    | € 385,73   | € 789,17           |
| Surveillance and Security                  | € 70,32     |             | € 71,73     | € 71,73     | € 71,73     | € 71,73     | € 143,46    | € 71,73     | € 71,73    | € 502,11           |
| Cleaning, Hygiene and Comfort              |             | € 12,44     | € 13,33     | € 3,56      | € 21,10     | € 11,54     |             |             |            | € 36,20            |
| Conservation and Repair                    |             | € 750,00    |             |             |             |             | € 1 200,00  |             |            | € 1 200,00         |
| Other supplies and External services       | € 16,26     | € 12,30     | € 12,30     | € 162,68    | € 1 241,79  | € 134,15    | € 98,72     | € 89,75     | € 104,54   | € 1 831,63         |
| Personnel Expenses                         | € -         | € -         | € 100,00    | € 907,99    | € 908,03    | € 908,03    | € 1 495,30  | € 908,03    | € 908,03   | € 6 035,41         |
| Administration                             |             |             |             |             |             |             |             |             |            | € -                |
| Workers                                    |             |             |             | € 907,99    | € 908,03    | € 908,03    | € 1 495,30  | € 908,03    | € 908,03   | € 6 035,41         |
| Others                                     |             |             | € 100,00    |             |             |             |             |             |            | € -                |
| <b>Operational Costs</b>                   | € 652,23    | € 1 869,64  | € 1 440,12  | € 1 807,50  | € 4 484,40  | € 2 248,71  | € 4 111,57  | € 1 770,26  | € 1 603,19 | € 16 025,63        |
| Other Costs and Losses                     |             | € 572,03    | € 95,70     | € 211,20    | € 44,28     | € 10,79     | € 37,77     | € 5,73      | -€ 490,03  | -€ 180,26          |
| Other Revenues and Gains                   |             |             |             | € 1 045,33  | € 0,01      |             | € 25,20     |             |            | € 1 070,54         |
| <b>Revenues before Interest - EBITDA</b>   | -€ 1 048,51 | -€ 769,56   | -€ 1 218,15 | € 12 698,40 | € 4 230,79  | -€ 3 498,04 | -€ 1 174,88 | -€ 872,24   | € 3 396,35 | € 14 780,38        |
| Interest                                   |             |             |             |             |             |             |             |             |            |                    |
| Amortization                               | € 756,34    | € 756,34    | € 756,34    | € 756,34    | € 795,49    | € 764,17    | € 764,17    | € 764,17    | € 764,17   | € 4 608,51         |
| <b>Operational Results - EBIT</b>          | -€ 1 804,85 | -€ 1 525,90 | -€ 1 974,49 | € 11 942,06 | € 3 435,30  | -€ 4 262,21 | -€ 1 939,05 | -€ 1 636,41 | € 2 632,18 | € 10 171,87        |
| <b>Results before Donations</b>            | -€ 2 054,85 | -€ 3 025,90 | -€ 1 974,49 | € 244,28    | -€ 2 564,70 | -€ 4 262,21 | -€ 2 139,05 | -€ 1 736,41 | € 2 532,18 | -€ 7 925,91        |
| <b>Results before Donations and Quotas</b> | -€ 2 054,85 | -€ 3 025,90 | -€ 2 494,49 | € 164,28    | -€ 2 648,79 | -€ 4 262,21 | -€ 2 139,05 | -€ 1 736,41 | -€ 471,91  | -€ 11 094,09       |
| <b>Results before Taxes</b>                | -€ 1 804,85 | -€ 1 525,90 | -€ 1 974,49 | € 11 942,06 | € 3 435,30  | -€ 4 262,21 | -€ 1 939,05 | -€ 1 636,41 | € 2 632,18 | € 10 171,87        |
| Taxes on Profit                            | € -         | € -         | € -         | € -         | € -         | € -         | € -         | € -         | € -        |                    |
| <b>Net Income</b>                          | -€ 1 804,85 | -€ 1 525,90 | -€ 1 974,49 | € 11 942,06 | € 3 435,30  | -€ 4 262,21 | -€ 1 939,05 | -€ 1 636,41 | € 2 632,18 | € 10 171,87        |

**Appendix 16. Selling Price needed to achieve a 60% gross margin for each model of the Spring Summer Collection 2017.**

| Model                       | Cost per Model | Final SP No VAT | Gross Margin % | SP needed to 60% M | Value Difference | With VAT |
|-----------------------------|----------------|-----------------|----------------|--------------------|------------------|----------|
| Aztec                       | €45,79         | €109,76         | 58.3%          | €114,48            | €4,72            | €140,81  |
| Bandolera (Camel)           | €36,13         | €77,24          | 53.2%          | €90,33             | €13,09           | €111,10  |
| Bandolera (Citron/ Fuschia) | €36,53         | €77,24          | 52.7%          | €91,33             | €14,09           | €112,33  |
| Beach Bag                   | €21,79         | €52,85          | 58.8%          | €54,47             | €1,62            | €67,00   |
| Bucket Bag                  | €57,97         | €129,27         | 55.2%          | €144,91            | €15,64           | €178,24  |
| Clutch Textile              | €28,04         | €69,11          | 59.4%          | €70,09             | €0,98            | €86,21   |
| Fringe Clutch               | €27,88         | €77,24          | 63.9%          | €69,70             | -€7,54           | €85,72   |
| Fringe Key Chain            | €5,78          | €17,89          | 67.7%          | €14,45             | -€3,44           | €17,77   |
| Leather Clutch              | €20,81         | €56,91          | 63.4%          | €52,03             | -€4,88           | €63,99   |
| Mini Bucket Bag             | €47,23         | €104,88         | 55.0%          | €118,09            | €13,21           | €145,24  |
| Mini Shopper Bag            | €41,48         | €93,50          | 55.6%          | €103,69            | €10,19           | €127,54  |
| Necessaire                  | €19,72         | €39,02          | 49.5%          | €49,29             | €10,27           | €60,63   |
| Porta Moedas                | €29,87         | €69,11          | 56.8%          | €74,67             | €5,56            | €91,84   |
| Shopper Bag Black           | €50,35         | €130,08         | 61.3%          | €125,87            | -€4,21           | €154,82  |
| Shopper Bag                 | €52,03         | €130,08         | 60.0%          | €130,07            | -€0,01           | €159,99  |
| Triangle                    | €5,71          | €13,41          | 57.4%          | €14,27             | €0,86            | €17,56   |
| Wallet Mocho / Vaca         | €10,08         | €20,33          | 50.4%          | €25,19             | €4,87            | €30,99   |
| Wallet Chita / Zebra        | €6,74          | €18,29          | 63.2%          | €16,85             | -€1,44           | €20,73   |
| Weekend Bag                 | €91,49         | €199,19         | 54.1%          | €228,72            | €29,54           | €281,33  |
| Zipper XL                   | €12,24         | €28,46          | 57.0%          | €30,60             | €2,14            | €37,64   |
| Zipper XS                   | €6,78          | €15,85          | 57.3%          | €16,95             | €1,09            | €20,84   |



**Appendix 17. Difference between Spring Summer Collection 2017 Selling Prices and the Price needed to achieve 60% Margin in each model.**



**Appendix 18. Final Production Costs needed to achieve a 60% gross margin, with the SPs used in the Spring Summer Collection 2017.**

| Model                       | Cost per Model | Final SP no VAT | Gross Margin % | Cost for 60% M | Decrease in Cost |
|-----------------------------|----------------|-----------------|----------------|----------------|------------------|
| Aztec                       | €45,79         | €109,76         | 58,28%         | €43,90         | €1,89            |
| Bandolera (Camel)           | €36,13         | €77,24          | 53,22%         | €30,89         | €5,24            |
| Bandolera (Citron/ Fúschia) | €36,53         | €77,24          | 52,70%         | €30,89         | €5,64            |
| Beach Bag                   | €21,79         | €52,85          | 58,77%         | €21,14         | €0,65            |
| Bucket Bag                  | €57,97         | €129,27         | 55,2%          | €51,71         | €6,26            |
| Clutch Textile              | €28,04         | €69,11          | 59,4%          | €27,64         | €0,39            |
| Fringe Clutch               | €27,88         | €77,24          | 63,9%          | €30,89         | -€3,02           |
| Fringe Key Chain            | €5,78          | €17,89          | 67,7%          | €7,15          | -€1,37           |
| Leather Clutch              | €20,81         | €56,91          | 63,4%          | €22,76         | -€1,95           |
| Mini Bucket Bag             | €47,23         | €104,88         | 55,0%          | €41,95         | €5,28            |
| Mini Shopper Bag            | €41,48         | €93,50          | 55,6%          | €37,40         | €4,08            |
| Necessaire                  | €19,72         | €39,02          | 49,5%          | €15,61         | €4,11            |
| Porta Moedas                | €29,87         | €69,11          | 56,8%          | €27,64         | €2,22            |
| Shopper Bag Black           | €50,35         | €130,08         | 61,3%          | €52,03         | -€1,68           |
| Shopper Bag                 | €52,03         | €130,08         | 60,0%          | €52,03         | -€0,00           |
| Triangle                    | €5,71          | €13,41          | 57,4%          | €5,37          | €0,34            |
| Wallet Mocho                | €10,08         | €20,33          | 50,4%          | €8,13          | €1,95            |
| Wallet Chita / Zebra        | €6,74          | €18,29          | 63,2%          | €7,32          | -€0,58           |
| Weekend Bag                 | €91,49         | €199,19         | 54,1%          | €79,67         | €11,81           |
| Zipper XL                   | €12,24         | €28,46          | 57,0%          | €11,38         | €0,86            |
| Zipper XS                   | €6,78          | €15,85          | 57,2%          | €6,34          | €0,44            |